

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended October 31, 2008
OR
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission file number 1-6089

 **H&R BLOCK**

H&R Block, Inc.

(Exact name of registrant as specified in its charter)

MISSOURI

(State or other jurisdiction of
incorporation or organization)

44-0607856

(I.R.S. Employer
Identification No.)

**One H&R Block Way
Kansas City, Missouri 64105**

(Address of principal executive offices, including zip code)

(816) 854-3000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller Reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The number of shares outstanding of the registrant's Common Stock, without par value, at the close of business on November 30, 2008 was 338,944,762 shares.



Form 10-Q for the Period Ended October 31, 2008

Table of Contents

	<u>Page</u>	
PART I	Financial Information	
<u>Item 1.</u>	<u>Condensed Consolidated Balance Sheets</u> <u>October 31, 2008 and April 30, 2008</u>	1
	<u>Condensed Consolidated Statements of Operations and</u> <u>Comprehensive Income (Loss)</u> <u>Three and Six Months Ended October 31, 2008 and 2007</u>	2
	<u>Condensed Consolidated Statements of Cash Flows</u> <u>Six months Ended October 31, 2008 and 2007</u>	3
	<u>Condensed Consolidated Statements of Stockholders' Equity</u> <u>Six months Ended October 31, 2008 and 2007</u>	4
	<u>Notes to Condensed Consolidated Financial Statements</u>	5
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	24
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	35
<u>Item 4.</u>	<u>Controls and Procedures</u>	35
PART II	<u>Other Information</u>	
<u>Item 1.</u>	<u>Legal Proceedings</u>	36
<u>Item 1A.</u>	<u>Risk Factors</u>	39
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	40
<u>Item 4.</u>	<u>Submission of Matters to a Vote of Security Holders</u>	40
<u>Item 6.</u>	<u>Exhibits</u>	41
<u>SIGNATURES</u>		42
<u>EX-3.1</u>		
<u>EX-3.2</u>		
<u>EX-10.1</u>		
<u>EX-31.1</u>		
<u>EX-31.2</u>		
<u>EX-32.1</u>		
<u>EX-32.2</u>		

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CONDENSED CONSOLIDATED BALANCE SHEETS (amounts in 000s, except share and per share amounts)

	October 31, 2008	April 30, 2008
	(Unaudited)	
ASSETS		
Cash and cash equivalents	\$ 693,626	\$ 664,897
Cash and cash equivalents – restricted	814	7,031
Receivables, less allowance for doubtful accounts of \$118,198 and \$120,155	537,751	534,229
Prepaid expenses and other current assets	387,675	420,738
Assets of discontinued operations, held for sale	1,039,683	987,592
Total current assets	2,659,549	2,614,487
Mortgage loans held for investment, less allowance for loan losses of \$63,652 and \$45,401	811,732	966,301
Property and equipment, at cost, less accumulated depreciation and amortization of \$626,896 and \$620,460	377,687	363,664
Intangible assets, net	136,542	147,368
Goodwill	832,294	831,314
Other assets	606,943	700,291
Total assets	<u>\$ 5,424,747</u>	<u>\$ 5,623,425</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Customer banking deposits	\$ 748,469	\$ 785,624
Accounts payable, accrued expenses and other current liabilities	636,050	739,887
Accrued salaries, wages and payroll taxes	100,027	365,712
Accrued income taxes	100,857	439,380
Current portion of long-term debt	6,257	7,286
Federal Home Loan Bank borrowings	104,000	129,000
Liabilities of discontinued operations, held for sale	745,419	644,446
Total current liabilities	2,441,079	3,111,335
Long-term debt	1,727,510	1,031,784
Other noncurrent liabilities	423,496	492,488
Total liabilities	4,592,085	4,635,607
Commitments and contingencies		
Stockholders' equity:		
Common stock, no par, stated value \$.01 per share, 800,000,000 shares authorized, shares issued of 444,176,510 and 435,890,796	4,442	4,359
Additional paid-in capital	837,912	695,959
Accumulated other comprehensive income (loss)	(11,236)	2,486
Retained earnings	2,019,301	2,384,449
Less treasury shares, at cost	(2,017,757)	(2,099,435)
Total stockholders' equity	832,662	987,818
Total liabilities and stockholders' equity	<u>\$ 5,424,747</u>	<u>\$ 5,623,425</u>

See Notes to Condensed Consolidated Financial Statements

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CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

(unaudited, amounts in 000s, except per share amounts)

	Three Months Ended October 31,		Six Months Ended October 31,	
	2008	2007	2008	2007
Revenues:				
Service revenues	\$ 316,337	\$ 305,401	\$ 557,057	\$ 557,674
Other revenues:				
Interest income	17,047	26,745	34,894	54,248
Product and other revenues	18,085	24,546	31,427	38,788
	<u>351,469</u>	<u>356,692</u>	<u>623,378</u>	<u>650,710</u>
Operating expenses:				
Cost of services	376,153	379,863	699,908	712,073
Cost of other revenues	62,612	57,229	105,177	98,695
Selling, general and administrative	138,036	151,278	255,240	267,083
	<u>576,801</u>	<u>588,370</u>	<u>1,060,325</u>	<u>1,077,851</u>
Operating loss	(225,332)	(231,678)	(436,947)	(427,141)
Other income (expense), net	(2,121)	9,855	(3,476)	17,819
Loss from continuing operations before tax benefit	(227,453)	(221,823)	(440,423)	(409,322)
Income tax benefit	(94,292)	(86,890)	(178,839)	(162,219)
Net loss from continuing operations	(133,161)	(134,933)	(261,584)	(247,103)
Net loss from discontinued operations	(2,713)	(367,338)	(7,009)	(557,748)
Net loss	<u>\$ (135,874)</u>	<u>\$ (502,271)</u>	<u>\$ (268,593)</u>	<u>\$ (804,851)</u>
Basic and diluted loss per share:				
Net loss from continuing operations	\$ (0.40)	\$ (0.42)	\$ (0.80)	\$ (0.76)
Net loss from discontinued operations	(0.01)	(1.13)	(0.02)	(1.72)
Net loss	<u>\$ (0.41)</u>	<u>\$ (1.55)</u>	<u>\$ (0.82)</u>	<u>\$ (2.48)</u>
Basic and diluted shares	<u>329,810</u>	<u>324,694</u>	<u>328,475</u>	<u>324,279</u>
Dividends per share	<u>\$ 0.15</u>	<u>\$ 0.14</u>	<u>\$ 0.29</u>	<u>\$ 0.28</u>
Comprehensive income (loss):				
Net loss	\$ (135,874)	\$ (502,271)	\$ (268,593)	\$ (804,851)
Change in unrealized gain on available-for-sale securities, net	(597)	1,626	(2,564)	1,163
Change in foreign currency translation adjustments	(11,472)	(3,023)	(11,158)	1,288
Comprehensive loss	<u>\$ (147,943)</u>	<u>\$ (503,668)</u>	<u>\$ (282,315)</u>	<u>\$ (802,400)</u>

See Notes to Condensed Consolidated Financial Statements



CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited, amounts in 000s)

Six Months Ended October 31,	2008	2007
Cash flows from operating activities:		
Net loss	\$ (268,593)	\$ (804,851)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	59,314	54,229
Stock-based compensation	13,505	15,500
Operating cash flows of discontinued operations	94,624	294,685
Other, net of business acquisitions	(564,781)	(498,981)
Net cash used in operating activities	(665,931)	(939,418)
Cash flows from investing activities:		
Principal repayments on mortgage loans held for investment, net	54,501	76,889
Purchases of property and equipment, net	(58,586)	(46,200)
Payments made for business acquisitions, net of cash acquired	(4,709)	(21,037)
Net cash provided by (used in) investing activities of discontinued operations	(48,917)	8,214
Other, net	8,910	4,865
Net cash provided by (used in) investing activities	(48,801)	22,731
Cash flows from financing activities:		
Repayments of commercial paper	-	(5,125,279)
Proceeds from issuance of commercial paper	-	4,133,197
Repayments of other short-term borrowings	(100,000)	(1,005,000)
Proceeds from other short-term borrowings	768,625	2,555,000
Customer deposits, net	(40,595)	(243,030)
Dividends paid	(96,555)	(90,495)
Acquisition of treasury shares	(4,467)	(5,672)
Proceeds from exercise of stock options	61,699	13,434
Proceeds from issuance of common stock, net	141,558	-
Net cash provided by financing activities of discontinued operations	4,783	191,546
Other, net	8,413	(39,230)
Net cash provided by financing activities	743,461	384,471
Net increase (decrease) in cash and cash equivalents	28,729	(532,216)
Cash and cash equivalents at beginning of the period	664,897	816,917
Cash and cash equivalents at end of the period	\$ 693,626	\$ 284,701
Supplementary cash flow data:		
Income taxes paid, net of refunds received of \$19,641 and \$71,724	\$ 99,910	\$ (52,360)
Interest paid on borrowings	38,713	73,998
Interest paid on deposits	10,441	28,039

See Notes to Condensed Consolidated Financial Statements



CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(unaudited, amounts in 000s, except per share amounts)

	Common Stock		Convertible Preferred Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock		Total Equity
	Shares	Amount	Shares	Amount				Shares	Amount	
Balances at April 30, 2007	435,891	\$ 4,359	-	\$ -	\$ 676,766	\$ (1,320)	\$ 2,886,440	(112,672)	\$ (2,151,746)	\$ 1,414,499
Remeasurement of uncertain tax positions upon adoption of FIN 48	-	-	-	-	-	-	(9,716)	-	-	(9,716)
Net loss	-	-	-	-	-	-	(804,851)	-	-	(804,851)
Unrealized translation gain	-	-	-	-	-	1,288	-	-	-	1,288
Change in net unrealized gain on available-for-sale securities	-	-	-	-	-	1,163	-	-	-	1,163
Stock-based compensation	-	-	-	-	20,750	-	-	-	-	20,750
Shares issued for:										
Option exercises	-	-	-	-	(5,105)	-	-	940	17,944	12,839
Nonvested shares	-	-	-	-	(14,439)	-	-	742	14,167	(272)
ESPP	-	-	-	-	400	-	-	218	4,161	4,561
Acquisitions	-	-	-	-	35	-	-	8	151	186
Acquisition of treasury shares	-	-	-	-	-	-	-	(245)	(5,672)	(5,672)
Cash dividends paid – \$0.28 per share	-	-	-	-	-	-	(90,495)	-	-	(90,495)
Balances at October 31, 2007	435,891	\$ 4,359	-	\$ -	\$ 678,407	\$ 1,131	\$ 1,981,378	(111,009)	\$ (2,120,995)	\$ 544,280
Balances at April 30, 2008	435,891	\$ 4,359	-	\$ -	\$ 695,959	\$ 2,486	\$ 2,384,449	(109,880)	\$ (2,099,435)	\$ 987,818
Net loss	-	-	-	-	-	-	(268,593)	-	-	(268,593)
Unrealized translation loss	-	-	-	-	-	(11,158)	-	-	-	(11,158)
Change in net unrealized gain (loss) on available-for-sale securities	-	-	-	-	-	(2,564)	-	-	-	(2,564)
Proceeds from common stock issuance, net of expenses	8,286	83	-	-	141,475	-	-	-	-	141,558
Stock-based compensation	-	-	-	-	15,060	-	-	-	-	15,060
Shares issued for:										
Option exercises	-	-	-	-	(3,351)	-	-	3,768	72,010	68,659
Nonvested shares	-	-	-	-	(10,803)	-	-	539	10,304	(499)
ESPP	-	-	-	-	(453)	-	-	192	3,668	3,215
Acquisitions	-	-	-	-	25	-	-	9	163	188
Acquisition of treasury shares	-	-	-	-	-	-	-	(205)	(4,467)	(4,467)
Cash dividends paid – \$0.29 per share	-	-	-	-	-	-	(96,555)	-	-	(96,555)
Balances at October 31, 2008	444,177	\$ 4,442	-	\$ -	\$ 837,912	\$ (11,236)	\$ 2,019,301	(105,577)	\$ (2,017,757)	\$ 832,662

See Notes to Condensed Consolidated Financial Statements

1. Summary of Significant Accounting Policies**Basis of Presentation**

The condensed consolidated balance sheet as of October 31, 2008, the condensed consolidated statements of operations and comprehensive income (loss) for the three and six months ended October 31, 2008 and 2007, the condensed consolidated statements of cash flows for the six months ended October 31, 2008 and 2007, and the condensed consolidated statements of stockholders' equity for the six months ended October 31, 2008 and 2007 have been prepared by the Company, without audit. In the opinion of management, all adjustments, which include only normal recurring adjustments, necessary to present fairly the financial position, results of operations, cash flows and changes in stockholders' equity at October 31, 2008 and for all periods presented have been made.

"H&R Block," "the Company," "we," "our" and "us" are used interchangeably to refer to H&R Block, Inc. or H&R Block, Inc. and its subsidiaries, as appropriate to the context.

Certain reclassifications have been made to prior year amounts to conform to the current year presentation. These reclassifications had no effect on our results of operations or stockholders' equity as previously reported. On August 12, 2008, we announced the signing of a definitive agreement to sell H&R Block Financial Advisors, Inc. (HRBFA) to Ameriprise Financial, Inc. (Ameriprise). At October 31, 2008, we met the criteria requiring us to present the results of operations of HRBFA and its direct corporate parent as discontinued operations, and the related assets and liabilities as held for sale in the condensed consolidated financial statements. All periods presented have been reclassified to reflect our discontinued operations. See additional discussion in note 15.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted. These condensed consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in our April 30, 2008 Annual Report to Shareholders on Form 10-K. All amounts presented herein as of April 30, 2008 or for the year then ended, are derived from our April 30, 2008 Annual Report to Shareholders on Form 10-K.

Management Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Seasonality of Business

Our operating revenues are seasonal in nature with peak revenues occurring in the months of January through April. Therefore, results for interim periods are not indicative of results to be expected for the full year.

Concentrations of Risk

Cash deposits in bank accounts in excess of insured or guaranteed limits are exposed to loss in the event of nonperformance by the financial institution. We had cash deposits in excess of these limits of \$344.4 million at October 31, 2008. In previous periods, we did not hold large cash balances in financial institutions, and instead invested in money market funds. We have not historically experienced any losses on bank deposits.

Our mortgage loans held for investment include concentrations of loans to borrowers in a single state, which may result in increased exposure to loss as a result of changes in real estate values and underlying economic or market conditions related to a particular geographical location. Approximately 49% of our mortgage loan portfolio consists of loans to borrowers located in the states of Florida, California or New York.

2. Earnings (Loss) Per Share and Stockholders' Equity

Basic and diluted loss per share is computed using the weighted average shares outstanding during each period. The dilutive effect of potential common shares is included in diluted earnings per share except in those periods with a loss from continuing operations. Diluted earnings per share excludes the impact of shares of common stock issuable upon the lapse of certain restrictions or the exercise of options to purchase 23.7 million shares for the three and six months ended October 31, 2008, and 30.2 million shares and 30.7 million shares for the three and six months ended October 31, 2007, respectively, as the effect would be antidilutive due to the net loss from continuing operations during each period.

The weighted average shares outstanding for the three and six months ended October 31, 2008 increased to 329.8 million and 328.5 million, respectively, from 324.7 million and 324.3 million for the three and six months ended October 31, 2007, respectively, primarily due to the issuance of shares of our common stock in October 2008. On October 27, 2008, we sold 8.3 million shares of our common stock, without par value, at a price of \$17.50 per share in a registered direct offering through subscription agreements with selected institutional investors. We received net proceeds of \$141.6 million, after deducting placement agent fees and other offering expenses.

During the six months ended October 31, 2008 and 2007, we issued 4.5 million and 1.9 million shares of common stock, respectively, due to the exercise of stock options, employee stock purchases and vesting of nonvested shares.

During the six months ended October 31, 2008, we acquired 0.2 million shares of our common stock, which represent shares swapped or surrendered to us in connection with the vesting of nonvested shares and the exercise of stock options, at an aggregate cost of \$4.5 million. During the six months ended October 31, 2007, we acquired 0.2 million shares of our common stock, which represent shares swapped or surrendered to us in connection with the vesting of nonvested shares and the exercise of stock options, at an aggregate cost of \$5.7 million.

During the six months ended October 31, 2008, we granted 5.1 million stock options and 1.0 million nonvested shares and units in accordance with our stock-based compensation plans. The weighted average fair value of options granted was \$3.80 for manager options and \$2.83 for options granted to our seasonal associates. At October 31, 2008, the total unrecognized compensation cost for options and nonvested shares and units was \$15.6 million and \$27.1 million, respectively.

3. Mortgage Loans Held for Investment

The composition of our mortgage loan portfolio as of October 31, 2008 and April 30, 2008 is as follows:

	October 31, 2008		April 30, 2008	
	Amount	% of Total	Amount	% of Total
Adjustable-rate loans	\$584,967	67%	\$ 715,919	71%
Fixed-rate loans	284,084	33%	288,721	29%
	869,051	100%	1,004,640	100%
Unamortized deferred fees and costs	6,333		7,062	
Less: Allowance for loan losses	(63,652)		(45,401)	
	<u>\$811,732</u>		<u>\$ 966,301</u>	

Activity in the allowance for mortgage loan losses for the six months ended October 31, 2008 and 2007 is as follows:

Six Months Ended October 31,	(in 000s)	
	2008	2007
Balance at beginning of the period	\$ 45,401	\$ 3,448
Provision	38,083	11,926
Recoveries	3	998
Charge-offs	(19,835)	(880)
Balance at end of the period	<u>\$ 63,652</u>	<u>\$15,492</u>

The loan loss provision increased significantly during the current period as a result of declining collateral values due to a decline in residential home prices, and increasing delinquencies occurring in our

portfolio. Our loan loss reserve as a percent of mortgage loans was 7.27% at October 31, 2008, compared to 4.49% at April 30, 2008.

Loans 60 days past due are considered impaired. Impaired loans at October 31, 2008 and April 30, 2008 totaled \$150.8 million and \$128.9 million, respectively.

In cases where we modify a loan and in so doing grant a concession to a borrower experiencing financial difficulty, the modification is considered a troubled debt restructuring (TDR). TDR loans totaled \$110.9 million and \$37.2 million at October 31, 2008 and April 30, 2008, respectively.

4. Goodwill and Intangible Assets

Changes in the carrying amount of goodwill of continuing operations for the six months ended October 31, 2008 consist of the following:

	(in 000s)				
	April 30, 2008	Additions	Impairment	Other	October 31, 2008
Tax Services	\$ 431,981	\$ 4,907	\$ (2,188)	\$ (2,998)	\$ 431,702
Business Services	399,333	1,779	-	(520)	400,592
Total	\$ 831,314	\$ 6,686	\$ (2,188)	\$(3,518)	\$ 832,294

We test goodwill for impairment annually at the beginning of our fourth quarter, or more frequently if events occur indicating it is more likely than not the fair value of a reporting unit's net assets has been reduced below its carrying value. During the three months ended October 31, 2008, we recorded a \$2.2 million impairment in our Tax Services segment relating to the goodwill of a small digital business acquired in fiscal year 2005. No other events indicating possible impairment of goodwill were identified.

Intangible assets of continuing operations consist of the following:

	October 31, 2008			April 30, 2008		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Tax Services:						
Customer relationships	\$ 44,026	\$ (22,289)	\$ 21,737	\$ 46,479	\$ (22,007)	\$ 24,472
Noncompete agreements	22,367	(20,226)	2,141	22,966	(19,981)	2,985
Purchased technology	12,500	(3,262)	9,238	12,500	(2,283)	10,217
Trade name	1,025	(167)	858	1,025	(117)	908
Business Services:						
Customer relationships	144,032	(105,895)	38,137	143,402	(100,346)	43,056
Noncompete agreements	32,442	(18,780)	13,662	32,303	(17,589)	14,714
Trade name – amortizing	2,600	(2,600)	-	3,290	(3,043)	247
Trade name – non-amortizing	55,637	(4,868)	50,769	55,637	(4,868)	50,769
	\$314,629	\$ (178,087)	\$136,542	\$317,602	\$ (170,234)	\$147,368

Amortization of intangible assets of continuing operations for the three and six months ended October 31, 2008 was \$8.0 million and \$13.6 million, respectively, and \$5.8 million and \$12.2 million for the three and six months ended October 31, 2007, respectively. Estimated amortization of intangible assets for fiscal years 2009 through 2013 is \$22.6 million, \$20.1 million, \$18.3 million, \$15.5 million and \$11.6 million, respectively.

5. Borrowings

Long-term debt consists of the following:

(in 000s)

	October 31, 2008	April 30, 2008
CLOC borrowings, due August 2010	\$ 693,625	\$ -
Senior Notes, 7.875%, due January 2013	599,476	599,414
Senior Notes, 5.125%, due October 2014	398,589	398,471
Other	42,077	41,185
	<u>1,733,767</u>	<u>1,039,070</u>
Less: Current portion	(6,257)	(7,286)
	<u>\$ 1,727,510</u>	<u>\$ 1,031,784</u>

At October 31, 2008, we maintained \$2.0 billion in revolving credit facilities to support commercial paper issuance and for general corporate purposes. These unsecured committed lines of credit (CLOCs), and outstanding borrowings thereunder, have a maturity date of August 2010 and an annual facility fee in a range of six to fifteen basis points per annum, based on our credit ratings. We had \$693.6 million outstanding as of October 31, 2008 to support working capital requirements primarily arising from off-season operating losses, to pay dividends and acquire businesses. These borrowings are included in long-term debt on our condensed consolidated balance sheet due to their contractual maturity date. The CLOCs, among other things, require we maintain at least \$650.0 million of net worth on the last day of any fiscal quarter. We had net worth of \$832.7 million at October 31, 2008.

Lehman Brothers Bank, FSB (Lehman) is a participating lender in our \$2.0 billion CLOCs, with a \$50.0 million credit commitment. In September 2008, Lehman's parent company declared bankruptcy. Since then, Lehman has not honored any funding requests under these facilities, thereby effectively reducing our available liquidity under our CLOCs to \$1.95 billion. We do not expect this change to have a material impact on our liquidity or consolidated financial statements.

H&R Block Bank (HRB Bank) is a member of the Federal Home Loan Bank (FHLB) of Des Moines, which extends credit to member banks based on eligible collateral. At October 31, 2008, HRB Bank had total FHLB advance capacity of \$265.3 million. There was \$104.0 million outstanding on this facility, leaving remaining availability of \$161.3 million. Mortgage loans held for investment of \$770.8 million serve as eligible collateral and are used to determine total capacity.

6. Income Taxes

We file a consolidated federal income tax return in the United States and file tax returns in various state and foreign jurisdictions. Consolidated tax returns for the years 1999 through 2005 are currently under examination by the Internal Revenue Service (IRS). Tax years prior to 1999 are closed by statute. Historically, tax returns in various foreign and state jurisdictions are examined and settled upon completion of the exam.

During the three and six months ended October 31, 2008, we accrued an additional \$1.1 million and \$4.1 million, respectively, of interest and penalties related to our uncertain tax positions. We had unrecognized tax benefits of \$125.8 million and \$137.6 million at October 31, 2008 and April 30, 2008, respectively. The unrecognized tax benefits decreased \$11.8 million in the current year, due primarily to settlement payments of \$9.3 million. We have classified the liability for unrecognized tax benefits, including corresponding accrued interest, as long-term at October 31, 2008, which is included in other noncurrent liabilities on the condensed consolidated balance sheet. Amounts that we expect to pay, or for which statutes expire, within the next twelve months have been included in accounts payable, accrued expenses and other current liabilities on the condensed consolidated balance sheet.

Based upon the expiration of statutes of limitations, payments of tax and other factors in several jurisdictions, we believe it is reasonably possible that the total amount of previously unrecognized tax benefits may decrease by approximately \$4 to \$5 million within twelve months of October 31, 2008.

7. Interest Income and Expense

The following table shows the components of interest income and expense of our continuing operations. Operating interest expense is included in cost of other revenues, and interest expense on acquisition debt is included in other income (expense), net on our condensed consolidated statements of operations.

	Three Months Ended October 31,		Six Months Ended October 31,	
	2008	2007	2008	2007
(in 000s)				
Interest income:				
Mortgage loans, net	\$ 12,098	\$ 20,451	\$ 25,363	\$ 42,942
Other	4,949	6,294	9,531	11,306
	<u>\$ 17,047</u>	<u>\$ 26,745</u>	<u>\$ 34,894</u>	<u>\$ 54,248</u>
Operating interest expense:				
Borrowings	\$ 21,054	\$ 10,362	\$ 39,226	\$ 20,660
Deposits	3,884	12,221	7,927	26,464
FHLB advances	1,327	1,470	2,655	3,360
	<u>26,265</u>	<u>24,053</u>	<u>49,808</u>	<u>50,484</u>
Interest expense – acquisition debt	416	652	829	1,247
Total interest expense	<u>\$ 26,681</u>	<u>\$ 24,705</u>	<u>\$ 50,637</u>	<u>\$ 51,731</u>

8. Fair Value

On May 1, 2008, we adopted Statement of Financial Accounting Standards No. 157, “Fair Value Measurements” (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosure requirements for fair value measurements. We elected to defer the application of SFAS 157 for nonfinancial assets and nonfinancial liabilities until fiscal year 2010, as provided for by FASB Staff Position FAS 157-2, “Effective Date of FASB Statement No. 157” (FSP 157-2). The adoption of SFAS 157 did not have an impact on our consolidated results of operations or financial position.

Fair Value Hierarchy

SFAS 157 establishes a fair value hierarchy that prioritizes the inputs used to measure fair value into three broad levels, considering the relative reliability of the inputs, as follows:

- Level 1 – Quoted prices in active markets for identical assets or liabilities. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 – Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuations in which all significant inputs are observable in the market.
- Level 3 – Valuation is modeled using significant inputs that are unobservable in the market. These unobservable inputs reflect our own estimates of assumptions that market participants would use in pricing the asset or liability.

Estimation of Fair Value

The following is a description of the valuation methodologies used for assets and liabilities measured at fair value and the general classification of these instruments pursuant to the fair value hierarchy.

- Available-for-sale securities – Available-for-sale securities are carried at fair value on a recurring basis. When available, fair value is based on quoted prices in an active market and as such, would be classified as Level 1. If quoted market prices are not available, fair values are estimated using quoted prices of securities with similar characteristics, discounted cash flows or other pricing models. Available-for-sale securities that we classify as Level 2 include certain agency and non-agency mortgage-backed securities, U.S. states and political subdivisions debt securities and other debt and equity securities.

- Mortgage loans held for sale – The fair values of loans held for sale are generally based on observable market prices of securities that have loan collateral or interests in loans that are similar to the held-for-sale loans, or whole loan sale prices if formally committed. These loans are classified as Level 2.
- Residual interests in securitizations – Determination of the fair value of residual interests in securitizations requires the use of unobservable inputs. We value these securities using a discounted cash flow approach that incorporates expectations of prepayment speeds and expectations of delinquencies and losses. Risk-adjusted discount rates are based on quotes from third party sources. These assets are classified as Level 3.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following table presents for each hierarchy level the financial assets of our continuing operations that are measured at fair value on a recurring basis at October 31, 2008:

	(dollars in 000s)			
	Total	Level 1	Level 2	Level 3
Available-for-sale securities	\$47,199	\$2,732	\$44,467	\$ -
Mortgage loans held for sale	24,121	-	24,121	-
Residual interests in securitizations	9,487	-	-	9,487
	<u>\$80,807</u>	<u>\$2,732</u>	<u>\$ 68,588</u>	<u>\$ 9,487</u>
As a percentage of total assets	1.5%	0.1%	1.3%	0.2%

The following table presents changes in Level 3 financial assets measured at fair value on a recurring basis:

	(in 000s)	
	Three Months Ended October 31, 2008	Six Months Ended October 31, 2008
Fair value, beginning of period	\$ 8,466	\$ 16,678
Losses:		
Included in earnings	(269)	(5,222)
Included in other comprehensive income (loss)	2,004	(316)
Cash received	(714)	(1,653)
Fair value, end of period	<u>\$ 9,487</u>	<u>\$ 9,487</u>

Mortgage loans held for sale are included in prepaid expenses and other current assets, and available-for-sale securities and residual interests in securitizations are included in other assets on our condensed consolidated balance sheets.

Fair Value Option

We adopted Statement of Financial Accounting Standards No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities” (SFAS 159) on May 1, 2008. SFAS 159 permits an instrument by instrument irrevocable election to account for selected financial assets and financial liabilities at fair value. We did not elect to apply the fair value option to any eligible financial assets or financial liabilities on May 1, 2008 or during the six months ended October 31, 2008. Subsequent to the initial adoption, we may elect to account for selected financial assets and financial liabilities at fair value. Such an election could be made at the time an eligible financial asset, financial liability or firm commitment is recognized or when certain specified reconsideration events occur.

9. Regulatory Requirements

HRB Bank and the Company are subject to various regulatory requirements, including capital guidelines for HRB Bank, administered by federal banking agencies. Failure to meet minimum capital requirements can trigger certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on HRB Bank and our consolidated financial statements. All savings associations are subject to the capital adequacy guidelines and the regulatory framework for prompt corrective action. HRB Bank must meet specific capital guidelines that involve quantitative measures of HRB Bank’s assets, liabilities and certain off-balance sheet items, as calculated under regulatory accounting practices. HRB Bank’s capital amounts and classification are also subject to

qualitative judgments by the regulators about components, risk weightings and other factors. HRB Bank files its regulatory Thrift Financial Report (TFR) on a calendar quarter basis.

Quantitative measures established by regulation to ensure capital adequacy require HRB Bank to maintain minimum amounts and ratios of tangible equity, total risk-based capital and Tier 1 capital, as set forth in the table below. In addition to these minimum ratio requirements, HRB Bank is required to continually maintain a 12.0% minimum leverage ratio as a condition of its charter-approval order through fiscal year 2009. This condition was extended through fiscal year 2012 as a result of a Supervisory Directive issued on May 29, 2007. As of October 31, 2008, HRB Bank's leverage ratio was 15.5%.

As of September 30, 2008, our most recent TFR filing with the Office of Thrift Supervision (OTS), HRB Bank was a "well capitalized" institution under the prompt corrective action provisions of the Federal Deposit Insurance Corporation (FDIC). The five capital categories are: (1) "well capitalized" (total risk-based capital ratio of 10%, Tier 1 Risk-based capital ratio of 6% and leverage ratio of 5%); (2) "adequately capitalized"; (3) "undercapitalized"; (4) "significantly undercapitalized"; and (5) "critically undercapitalized." There are no conditions or events since September 30, 2008 that management believes have changed HRB Bank's category.

The following table sets forth HRB Bank's regulatory capital requirements at September 30, 2008, as calculated in the most recently filed TFR:

	(dollars in 000s)					
	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total risk-based capital ratio(1)	\$195,362	33.1%	\$ 47,187	8.0%	\$ 58,983	10.0%
Tier 1 risk-based capital ratio(2)	\$188,066	31.9%	n/a	n/a	\$ 35,390	6.0%
Tier 1 capital ratio (leverage)(3)	\$188,066	17.7%	\$ 127,580	12.0%	\$ 53,158	5.0%
Tangible equity ratio(4)	\$188,066	17.7%	\$ 15,947	1.5%	n/a	n/a

(1) Total risk-based capital divided by risk-weighted assets.

(2) Tier 1 (core) capital less deduction for low-level recourse and residual interest divided by risk-weighted assets.

(3) Tier 1 (core) capital divided by adjusted total assets.

(4) Tangible capital divided by tangible assets.

10. Commitments and Contingencies

Changes in the deferred revenue liability related to our Peace of Mind (POM) program, the current portion of which is included in accounts payable, accrued expenses and other current liabilities and the long-term portion of which is included in other noncurrent liabilities in the condensed consolidated balance sheets, are as follows:

	(in 000s)	
Six Months Ended October 31,	2008	2007
Balance, beginning of period	\$140,583	\$142,173
Amounts deferred for new guarantees issued	1,148	1,067
Revenue recognized on previous deferrals	(45,826)	(46,388)
Balance, end of period	<u>\$ 95,905</u>	<u>\$ 96,852</u>

The following table summarizes certain of our other contractual obligations and commitments:

	(in 000s)	
As of	October 31, 2008	April 30, 2008
Commitment to fund Franchise Equity Lines of Credit	\$ 81,533	\$ 79,134
Contingent business acquisition obligations	25,962	24,288
Media advertising purchase obligation	64,811	19,043

We routinely enter into contracts that include embedded indemnifications that have characteristics similar to guarantees. Other guarantees and indemnifications of the Company and its subsidiaries include obligations to protect counterparties from losses arising from the following: (1) tax, legal and other risks related to the purchase or disposition of businesses; (2) penalties and interest assessed by federal and state taxing authorities in connection with tax returns prepared for clients; (3) indemnification of our directors and officers; and (4) third-party claims relating to various arrangements in the normal course of business. Typically, there is no stated maximum payment related to these indemnifications, and the terms of the indemnities may vary and in many cases are limited only by the applicable statute of limitations. The likelihood of any claims being asserted against us and the ultimate liability related to any such claims, if any, is difficult to predict. While we cannot provide assurance we will ultimately prevail in the event any such claims are asserted, we believe the fair value of these guarantees and indemnifications is not material as of October 31, 2008.

Mortgage Loan Repurchase Liability

Sand Canyon Corporation (SCC), formerly Option One Mortgage Corporation, maintains recourse with respect to loans previously sold or securitized under indemnification of loss provisions relating to breach of representations and warranties made to purchasers or insurers. As a result, SCC may be required to repurchase loans or otherwise indemnify third-parties for losses. These representations and warranties and corresponding repurchase obligations generally are not subject to stated limits or a stated term and, therefore, may continue for the foreseeable future. SCC has established a liability related to potential losses under these indemnifications and monitors the adequacy of the repurchase liability on an ongoing basis. To the extent that future claim volumes differ from current estimates, or the value of mortgage loans and residential home prices change, future losses may be different than these estimates and those differences may be significant.

The following table summarizes SCC's loan repurchase activity:

	(in 000s)		
	Six Months Ended		Year Ended
	October 31, 2008	October 31, 2007	April 30, 2008
Loan repurchase liability at end of period	\$ 224,679	\$ 85,894	\$ 243,066
Loans repurchased and indemnification payments during the period	22,009	381,442	515,370
Repurchase reserves added during the period	-	329,966	582,373

Restructuring Charge

During fiscal year 2006, our mortgage business initiated a restructuring plan to reduce costs. Restructuring activities continued into fiscal years 2007 and 2008, including our previously announced closure of all mortgage origination activities and sale of servicing operations. Changes in our restructuring charge liability during the six months ended October 31, 2008 are as follows:

	(in 000s)			
	Accrual Balance as of April 30, 2008	Cash Payments	Other Adjustments	Accrual Balance as of October 31, 2008
Employee severance costs	\$ 4,807	\$ (4,223)	\$ 760	\$ 1,344
Contract termination costs	23,113	(8,016)	1,508	16,605
	<u>\$ 27,920</u>	<u>\$ (12,239)</u>	<u>\$ 2,268</u>	<u>\$ 17,949</u>

The remaining liability related to this restructuring charge is included in accounts payable, accrued expenses and other current liabilities and accrued salaries, wages and payroll taxes on our consolidated balance sheet and primarily relates to lease obligations for vacant space resulting from branch office closings and employee severance costs, respectively.

Contract termination costs include estimates regarding the length of time required to sublease vacant space and expected recovery rates. Actual results could vary from these estimates.

11. Litigation and Related Contingencies

We are party to investigations, legal claims and lawsuits arising out of our business operations. We accrue our best estimate of the probable loss upon resolution of investigations, legal claims and lawsuits, which totaled \$12.7 million and \$11.5 million at October 31, 2008 and April 30, 2008, respectively. With respect to most of the matters described below, we have concluded that a loss is not probable and therefore no liability has been recorded.

RAL Litigation

We have been named as a defendant in numerous lawsuits throughout the country regarding our refund anticipation loan programs (collectively, "RAL Cases"). The RAL Cases have involved a variety of legal theories asserted by plaintiffs. These theories include allegations that, among other things: disclosures in the RAL applications were inadequate, misleading and untimely; the RAL interest rates were usurious and unconscionable; we did not disclose that we would receive part of the finance charges paid by the customer for such loans; untrue, misleading or deceptive statements in marketing RALs; breach of state laws on credit service organizations; breach of contract, unjust enrichment, unfair and deceptive acts or practices; violations of the federal Racketeer Influenced and Corrupt Organizations Act; violations of the federal Fair Debt Collection Practices Act and unfair competition regarding debt collection activities; and that we owe, and breached, a fiduciary duty to our customers in connection with the RAL program.

The amounts claimed in the RAL Cases have been very substantial in some instances, with one settlement resulting in a pretax expense of \$43.5 million in fiscal year 2003 (the "Texas RAL Settlement") and other settlements resulting in a combined pretax expense in fiscal year 2006 of \$70.2 million.

We believe we have meritorious defenses to the remaining RAL Cases and we intend to defend them vigorously. There can be no assurances, however, as to the outcome of the pending RAL Cases individually or in the aggregate or regarding the impact of the RAL Cases on our financial statements. We are unable to determine an estimate of the possible loss or range of loss, if any, in light of the current status of the pending RAL Cases. There were no significant developments regarding the RAL Cases during the three months ended October 31, 2008.

Peace of Mind Litigation

We are defendants in lawsuits regarding our Peace of Mind program (collectively, the "POM Cases"), under which our applicable tax return preparation subsidiary assumes liability for additional tax assessments attributable to tax return preparation error. The POM Cases are described below.

Lorie J. Marshall, et al. v. H&R Block Tax Services, Inc., et al., Case No. 08-CV-591 in the U.S. District Court for the Southern District of Illinois, is a class action case originally filed in the Circuit Court of Madison County, Illinois on January 18, 2002, in which class certification was granted on August 27, 2003. The plaintiffs allege that the sale of POM guarantees constitutes (1) statutory fraud by selling insurance without a license, (2) an unfair trade practice, by omission and by "cramming" (i.e., charging customers for the guarantee even though they did not request it or want it), and (3) a breach of fiduciary duty. In August 2003, the court certified the plaintiff classes consisting of all persons who from January 1, 1997 to final judgment (1) were charged a separate fee for POM by "H&R Block" or a defendant H&R Block class member; (2) reside in certain class states and were charged a separate fee for POM by "H&R Block" or a defendant H&R Block class member not licensed to sell insurance; or (3) had an unsolicited charge for POM posted to their bills by "H&R Block" or a defendant H&R Block class member. Persons who received the POM guarantee through an H&R Block Premium office and persons who reside in Alabama and Texas were excluded from the plaintiff class. The court also certified a defendant class consisting of any entity with names that include "H&R Block" or "HRB," or are otherwise affiliated or associated with H&R Block Tax Services, Inc., and that sold or sells the POM product. On August 5, 2008, the court decertified the defendant class and reduced the geographic scope of the plaintiff classes from 48 states to 13 states. On August 19, 2008, we removed the case from state court in Madison County, Illinois to the U.S. District Court for the Southern District of Illinois. The plaintiff's motion to remand the case back to state court is pending.

There is one other putative class action pending against us in Texas that involves the POM guarantee. This case is pending before the same judge that presided over the Texas RAL Settlement, involves the

same plaintiffs' attorneys that are involved in the Marshall litigation in Illinois, and contains allegations similar to those in the Marshall case. No class has been certified in this case.

We believe the claims in the POM Cases are without merit, and we intend to defend them vigorously. The amounts claimed in the POM Cases are substantial, however, and there can be no assurances as to the outcome of these pending actions individually or in the aggregate. We are unable to determine an estimate of the possible loss or range of loss, if any, in light of the early stages of the POM Cases.

Electronic Filing Litigation

We are a defendant in a class action filed on August 30, 2002 and entitled *Erin M. McNulty and Brian J. Erzar v. H&R Block, Inc., et al.*, Case No. 02-CIV-4654 in the Court of Common Pleas of Lackawanna County, Pennsylvania, in which the plaintiffs allege that the defendants deceptively portray electronic filing fees as a necessary and required component of standard tax preparation services and do not inform tax preparation clients that they may (1) file tax returns free of charge by mailing the returns, (2) electronically file tax returns from personal computers either free of charge or at significantly lower fees and (3) be eligible to electronically file tax returns free of charge via telephone. The plaintiffs seek unspecified damages and disgorgement of all electronic filing, tax preparation and related fees collected during the applicable class period. An agreement to settle this case for an amount not to exceed \$2.5 million was approved by the court on September 22, 2008, and the impact of the settlement is included in our consolidated results of operations for the six months ended October 31, 2008.

Express IRA Litigation

On March 15, 2006, the New York Attorney General filed a lawsuit in the Supreme Court of the State of New York, County of New York (Index No. 06/401110) entitled *The People of New York v. H&R Block, Inc. and H&R Block Financial Advisors, Inc. et al.* The complaint alleged fraudulent business practices, deceptive acts and practices, common law fraud and breach of fiduciary duty with respect to the Express IRA product and sought equitable relief, disgorgement of profits, damages and restitution, civil penalties and punitive damages. On July 12, 2007, the Supreme Court of the State of New York issued a ruling that dismissed all defendants other than HRBFA and the claims of common law fraud. Both the New York Attorney General and HRBFA have appealed the adverse portions of the trial court's ruling. We believe the claims in this case are without merit, and we intend to defend this case vigorously, but there are no assurances as to its outcome.

On January 2, 2008, the Mississippi Attorney General filed a lawsuit in the Chancery Court of Hinds County, Mississippi First Judicial District (Case No. G 2008 6 S 2) entitled *Jim Hood, Attorney for the State of Mississippi v. H&R Block, Inc., et al.* The complaint alleged fraudulent business practices, deceptive acts and practices, common law fraud and breach of fiduciary duty with respect to the Express IRA product and sought equitable relief, disgorgement of profits, damages and restitution, civil penalties and punitive damages. The defendants have filed a motion to dismiss. We believe the claims in this case are without merit, and we intend to defend this case vigorously, but there are no assurances as to its outcome.

In addition to the New York and Mississippi Attorney General actions, a number of civil actions were filed against HRBFA and us concerning the Express IRA product, the first of which was filed on March 17, 2006. Except for two cases pending in state court, all of the civil actions have been consolidated by the panel for Multi-District Litigation into a single action styled *In re H&R Block, Inc. Express IRA Marketing Litigation* in the United States District Court for the Western District of Missouri. Although we sold HRBFA effective November 1, 2008, we remain responsible for the Express IRA litigation through an indemnification agreement with Ameriprise. The amounts claimed in these cases are substantial. We believe the claims in these cases are without merit, and we intend to defend these cases vigorously, but there are no assurances as to their outcome.

We are unable to determine an estimate of the possible loss or range of loss, if any, of the Express IRA litigation at this time.

Securities Litigation

On April 6, 2007, a putative class action styled *In re H&R Block Securities Litigation* was filed against the Company and certain of its officers in the United States District Court for the Western District of Missouri. The complaint alleged, among other things, deceptive, material and misleading financial

statements, failure to prepare financial statements in accordance with generally accepted accounting principles and concealment of the potential for lawsuits stemming from the allegedly fraudulent nature of the Company's operations. The complaint sought unspecified damages and equitable relief. On October 5, 2007, the court dismissed the complaint and granted the plaintiffs leave to re-file the portion of the complaint pertaining to the Company's financial statements. On November 19, 2007, the plaintiffs re-filed the complaint, alleging, among other things, deceptive, material and misleading financial statements and failure to prepare financial statements in accordance with generally accepted accounting principles. The court dismissed the re-filed complaint on February 19, 2008. On March 11, 2008, the plaintiffs appealed the dismissal. In addition, plaintiffs in a shareholder derivative action that was consolidated into the securities litigation filed a separate appeal on March 18, 2008, contending that the derivative action was improperly consolidated. The derivative action is *Iron Workers Local 16 Pension Fund v. H&R Block, et al.*, in the United States District Court for the Western District of Missouri, Case No. 06- cv-00466-ODS (instituted on June 8, 2006) and was brought against certain of our directors and officers purportedly on behalf of the Company. The derivative action alleges breach of fiduciary duty, abuse of control, gross mismanagement, waste, and unjust enrichment pertaining to (1) our restatement of financial results in fiscal year 2006 due to errors in determining our state effective income tax rate and (2) certain of our products and business activities. We believe the claims in these cases are without merit and intend to defend this litigation vigorously. We currently do not believe that we will incur a material loss with respect to this litigation.

RSM McGladrey Litigation

RSM McGladrey Business Services, Inc. and certain of its subsidiaries are parties to a putative class action filed on July 11, 2006 and entitled *Do Right's Plant Growers, et al. v. RSM EquiCo, Inc., et al.* Case No. 06 CC00137, in the California Superior Court, Orange County. The complaint contains allegations regarding business valuation services provided by RSM EquiCo, Inc., including fraud, negligent misrepresentation, breach of contract, breach of implied covenant of good faith and fair dealing, breach of fiduciary duty and unfair competition and seeks unspecified damages, restitution and equitable relief. We intend to defend this case vigorously. The amount claimed in this action is substantial and there can be no assurance regarding the outcome and resolution of this matter. It is reasonably possible that we could incur losses with respect to this litigation, although an estimate of such losses cannot be made in light of the early stage of the litigation.

RSM McGladrey, Inc. (RSM) has a relationship with certain public accounting firms (collectively, "the Attest Firms") pursuant to which (1) some RSM employees are also partners or employees of the Attest Firms, (2) many clients of the Attest Firms are also RSM clients, and (3) our RSM McGladrey brand is closely linked to the Attest Firms. The Attest Firms are parties to claims and lawsuits (collectively, "Attest Firm Claims"). Judgments or settlements arising from Attest Firm Claims, which exceed the Attest Firms' insurance coverage, could have a direct adverse effect on Attest Firm operations, and could impair RSM's ability to attract and retain clients and quality professionals. Accordingly, although RSM may not have a direct liability for significant Attest Firm Claims, such Attest Firm Claims could have a material adverse effect on RSM's operations and impair the value of our investment in RSM. There is no assurance regarding the outcome of the Attest Firm Claims.

Litigation and Claims Pertaining to Discontinued Mortgage Operations

Although mortgage loan origination activities were terminated and the loan servicing business was sold during fiscal year 2008, SCC remains subject to investigations, claims and lawsuits pertaining to its loan origination and servicing activities that occurred prior to such termination and sale. These investigations, claims and lawsuits include actions by state attorneys general, other state regulators, municipalities, individual plaintiffs, and cases in which plaintiffs seek to represent a class of others alleged to be similarly situated. Among other things, these investigations, claims and lawsuits allege discriminatory or unfair and deceptive loan origination and servicing practices, public nuisance, fraud, and violations of the Truth in Lending Act, Equal Credit Opportunity Act and the Fair Housing Act. In the current non-prime mortgage environment, the number of these investigations, claims and lawsuits has increased over historical experience and is likely to continue at increased levels. The amounts claimed in these investigations, claims and lawsuits are substantial in some instances, and the ultimate resulting liability is difficult to

predict. In the event of unfavorable outcomes, the amounts SCC may be required to pay in the discharge of liabilities or settlements could be substantial and, because SCC's operating results are included in our consolidated financial statements, could have a material adverse impact on our consolidated results of operations.

On June 3, 2008, the Massachusetts Attorney General filed a lawsuit in the Superior Court of Suffolk County, Massachusetts (Case No. 08-2474-BLS) entitled *Commonwealth of Massachusetts v. H&R Block, Inc., et al.*, alleging unfair, deceptive and discriminatory origination and servicing of mortgage loans and seeking equitable relief, disgorgement of profits, restitution and statutory penalties. On November 10, 2008, the court granted a preliminary injunction limiting the ability of the owner of SCC's former loan servicing business to initiate or advance foreclosure actions against certain loans originated by SCC or its subsidiaries without (i) advance notice to the Massachusetts Attorney General and (ii) if the Attorney General objects to foreclosure, approval by the court. The preliminary injunction generally applies to loans meeting all of the following four characteristics: (1) adjustable rate mortgages with an introductory period of three years or less, (2) the borrower has a debt-to-income ratio generally exceeding 50 percent, (3) an introductory interest rate at least 2 percent lower than the fully indexed rate (unless the debt-to-income ratio is 55% or greater) and (4) loan-to-value ratio of 97 percent or certain prepayment penalties. We have appealed this preliminary injunction. We believe the claims in this case are without merit, and we intend to defend this case vigorously, but there are no assurances as to its outcome. We are unable to determine an estimate of the possible loss or range of loss, if any, in light of the early stages of this litigation.

SCC also remains subject to potential claims for indemnification and loan repurchases pertaining to loans previously sold. In the current non-prime mortgage environment, it is likely that the frequency of repurchase and indemnification claims may increase over historical experience and give rise to additional litigation. In some instances, H&R Block, Inc. was required to guarantee SCC's obligations. The amounts involved in these potential claims may be substantial, and the ultimate resulting liability is difficult to predict. In the event of unfavorable outcomes, the amounts SCC may be required to pay in the discharge or settlement of these claims could be substantial and, because SCC's operating results are included in our consolidated financial statements, could have a material adverse impact on our consolidated results of operations.

Other Claims and Litigation

We are from time to time party to investigations, claims and lawsuits not discussed herein arising out of our business operations. These investigations, claims and lawsuits include actions by state attorneys general, other state regulators, individual plaintiffs, and cases in which plaintiffs seek to represent a class of others similarly situated. Some of these investigations, claims and lawsuits pertain to RALs, the electronic filing of customers' income tax returns, the POM guarantee program, wage and hour claims and investment products. We believe we have meritorious defenses to each of these claims, and we are defending or intend to defend them vigorously. The amounts claimed in these claims and lawsuits are substantial in some instances, however the ultimate liability with respect to such litigation and claims is difficult to predict. In the event of an unfavorable outcome, the amounts we may be required to pay in the discharge of liabilities or settlements could be material.

In addition to the aforementioned types of cases, we are party to claims and lawsuits that we consider to be ordinary, routine litigation incidental to our business, including claims and lawsuits (collectively, "Other Claims") concerning investment products, the preparation of customers' income tax returns, the fees charged customers for various products and services, losses incurred by customers with respect to their investment accounts, relationships with franchisees, intellectual property disputes, employment matters and contract disputes. While we cannot provide assurance that we will ultimately prevail in each instance, we believe the amount, if any, we are required to pay in the discharge of liabilities or settlements in these Other Claims will not have a material adverse effect on our consolidated operating results, financial position or cash flows.

12. Segment Information

Information concerning our continuing operations by reportable operating segment is as follows:

	(in 000s)			
	Three Months Ended		Six Months Ended	
	October 31,		October 31,	
	2008	2007	2008	2007
Revenues:				
Tax Services	\$ 99,104	\$ 90,804	\$ 174,369	\$ 160,667
Business Services	233,045	239,048	407,696	431,871
Consumer Financial Services	16,835	23,122	35,785	50,303
Corporate	2,485	3,718	5,528	7,869
	<u>\$ 351,469</u>	<u>\$ 356,692</u>	<u>\$ 623,378</u>	<u>\$ 650,710</u>
Pretax income (loss):				
Tax Services	\$ (184,565)	\$ (199,149)	\$ (348,488)	\$ (371,438)
Business Services	13,081	11,781	12,786	9,875
Consumer Financial Services	(18,629)	(4,409)	(32,746)	433
Corporate	(37,340)	(30,046)	(71,975)	(48,192)
Loss from continuing operations before tax benefit	<u>\$ (227,453)</u>	<u>\$ (221,823)</u>	<u>\$ (440,423)</u>	<u>\$ (409,322)</u>

At October 31, 2008, we met the criteria requiring us to present the financial results of HRBFA as discontinued operations. Accordingly, all periods presented above for our Consumer Financial Services segment have been revised to exclude results for discontinued businesses.

13. Accounting Pronouncements

In June 2008, FASB Staff Position on EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities" (FSP 03-6-1) was issued. FSP 03-6-1 addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, should be included in the process of allocating earnings for purposes of computing earnings per share. This guidance is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008. Early application is not permitted. The provisions of FSP 03-6-1 are effective for our fiscal fourth quarter of 2009. We are currently evaluating what effect FSP 03-6-1 will have on our consolidated financial statements.

In December 2007, Statement of Financial Accounting Standards No. 141(R), "Business Combinations," (SFAS 141R), and Statement of Financial Accounting Standards No. 160, "Non-Controlling Interests in Consolidated Financial Statements – An Amendment of ARB No. 51" (SFAS 160) were issued. These standards will require an acquiring entity to recognize all the assets acquired and liabilities assumed in a transaction, including non-controlling interests, at the acquisition-date fair value with limited exceptions. SFAS 141R will further require acquisition-related expenses to be expensed separately from the acquisition, and also requires restructuring costs that the acquirer expected but was not obligated to incur, be expensed separately from the acquisition. Under SFAS 141R, subsequent changes to deferred tax valuation allowances relating to acquired businesses and acquired liabilities for uncertain tax positions will no longer be applied to goodwill but will instead be typically recognized as an adjustment to income tax expense. The provisions of these standards are effective as of the beginning of our fiscal year 2010. We are currently evaluating what effect the adoption of SFAS 141R and SFAS 160 will have on our consolidated financial statements.

As discussed in note 8, we adopted SFAS 157 and SFAS 159 as of May 1, 2008.

14. Subsequent Events

Effective November 1, 2008, we sold HRB Financial Corporation, including our securities brokerage business formerly conducted through HRBFA, to Ameriprise. We received cash proceeds of approximately \$312 million, plus repayment of net intercompany liabilities of approximately \$46 million, subject to post-closing adjustments. We expect to record a gain of less than \$10 million as a result of this transaction, which will be reported in our results for the quarter ending January 31, 2009. The transaction

resulted in a capital loss for income tax purposes and, with the exception of benefits of approximately \$8 million recorded during the quarter ended October 31, 2008, is not currently expected to result in a tax benefit.

On November 3, 2008, we acquired our last major independent franchise operator for approximately \$278 million in cash. This franchise includes a network of over 600 tax offices, nearly two-thirds of which converted to company-owned offices upon the closing of the transaction. The remaining offices are currently operated by sub-franchisees and, as a result, will become our direct franchises. We have not yet completed our purchase accounting and related valuation analysis related to this acquisition.

15. Discontinued Operations

At October 31, 2008, we met the criteria requiring us to present the results of operations of HRBFA and its direct corporate parent as discontinued operations, and the related assets and liabilities as held for sale in the condensed consolidated financial statements. All periods presented reflect our discontinued operations.

Major classes of assets and liabilities of HRBFA and its direct corporate parent reported as held for sale in the accompanying condensed consolidated balance sheets are as follows:

	October 31, 2008	April 30, 2008
Cash and cash equivalents	\$ 117,888	\$ 61,948
Cash and cash equivalents – restricted	312,000	212,000
Receivables from customers, brokers, dealers and clearing organizations	303,540	438,899
Prepaid expenses and other assets	132,301	100,791
Goodwill	173,954	173,954
Total assets	\$ 1,039,683	\$ 987,592
Accounts payable to customers, brokers and dealers	\$ 614,336	\$ 559,658
Accounts payable, accrued expenses and deposits	45,187	42,393
Other liabilities	85,896	42,395
Total liabilities	\$ 745,419	\$ 644,446

At October 31, 2008, HRBFA had \$49.3 million invested in the Reserve Primary Fund (Reserve Fund), a money market fund. The Reserve Fund currently is in orderly liquidation under the supervision of the Securities and Exchange Commission (SEC) and its net asset value has fallen below its stated value of \$1.00 per share. The Reserve Fund is not publishing current net asset values. Based on published guidance from the U.S. Commodity Futures Trading Commission, we have valued our investment as of October 31, 2008 at a net asset value of \$0.92 per share and, accordingly, recorded a pretax impairment charge of \$5.1 million in the quarter. Our investment balance, net of reserves, is included in prepaid expenses and other assets in the table above. The remaining investment was sold in conjunction with the sale of HRBFA, as discussed in note 14, and our purchase price in connection with the sale is subject to a post-closing adjustment based on final redemption payments. In December 2008, HRBFA received a redemption payment of \$28.1 million, reducing its remaining investment balance to \$16.0 million, net of impairment.

Overhead costs which would have previously been allocated to discontinued businesses totaled \$2.6 million and \$4.6 million for the three and six months ended October 31, 2008, respectively, and \$3.9 million and \$7.6 million for the three and six months ended October 31, 2007, respectively. These amounts are included in continuing operations.

The financial results of discontinued operations are as follows:

	(in 000s)			
	Three Months Ended October 31,		Six Months Ended October 31,	
	2008	2007	2008	2007
Net revenue	\$ 61,867	\$(125,941)	\$129,596	\$(162,140)
Pretax loss	\$(21,786)	\$(553,082)	\$(27,389)	\$(884,560)
Income tax benefit	(19,073)	(185,744)	(20,380)	(326,812)
Net loss from discontinued operations	\$ (2,713)	\$(367,338)	\$ (7,009)	\$(557,748)

During fiscal year 2008, we exited the mortgage business operated through a subsidiary and sold the related loan servicing business. Our discontinued operations include pretax losses related to our mortgage business of \$5.7 million and \$9.7 million for the three and six months ended October 31, 2008, respectively, compared to \$550.0 million and \$880.9 million, respectively, in the prior year.

16. Condensed Consolidating Financial Statements

Block Financial LLC (BFC) is an indirect, wholly-owned consolidated subsidiary of the Company. BFC is the Issuer and the Company is the Guarantor of the Senior Notes issued on January 11, 2008 and October 26, 2004, our CLOCs, the \$500.0 million credit facility entered into in April 2007 and other indebtedness issued from time to time. These condensed consolidating financial statements have been prepared using the equity method of accounting. Earnings of subsidiaries are, therefore, reflected in the Company's investment in subsidiaries account. The elimination entries eliminate investments in subsidiaries, related stockholders' equity and other intercompany balances and transactions.

Condensed Consolidating Income Statements						(in 000s)
Three Months Ended October 31, 2008	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Elims	Consolidated H&R Block	
Total revenues	\$ -	\$ 18,326	\$ 334,434	\$ (1,291)	\$ 351,469	
Cost of services	-	933	375,208	12	376,153	
Cost of other revenues	-	45,811	16,832	(31)	62,612	
Selling, general and administrative	-	17,493	120,639	(96)	138,036	
Total expenses	-	64,237	512,679	(115)	576,801	
Operating loss	-	(45,911)	(178,245)	(1,176)	(225,332)	
Other income (expense), net	(227,453)	460	(2,581)	227,453	(2,121)	
Loss from continuing operations before tax benefit	(227,453)	(45,451)	(180,826)	226,277	(227,453)	
Income tax benefit	(94,292)	(18,001)	(75,736)	93,737	(94,292)	
Net loss from continuing operations	(133,161)	(27,450)	(105,090)	132,540	(133,161)	
Net loss from discontinued operations	(2,713)	(3,285)	-	3,285	(2,713)	
Net loss	\$ (135,874)	\$(30,735)	\$ (105,090)	\$ 135,825	\$ (135,874)	

Three Months Ended October 31, 2007	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Elims	Consolidated H&R Block
Total revenues	\$ -	\$ 25,619	\$ 332,596	\$ (1,523)	\$ 356,692
Cost of services	-	4,286	375,665	(88)	379,863
Cost of other revenues	-	48,062	9,167	-	57,229
Selling, general and administrative	-	18,428	132,833	17	151,278
Total expenses	-	70,776	517,665	(71)	588,370
Operating loss	-	(45,157)	(185,069)	(1,452)	(231,678)
Other income, net	(221,823)	(16)	9,871	221,823	9,855
Loss from continuing operations before tax benefit	(221,823)	(45,173)	(175,198)	220,371	(221,823)
Income tax benefit	(86,890)	(16,684)	(69,472)	86,156	(86,890)
Net loss from continuing operations	(134,933)	(28,489)	(105,726)	134,215	(134,933)
Net loss from discontinued operations	(367,338)	(365,856)	(667)	366,523	(367,338)
Net loss	\$ (502,271)	\$ (394,345)	\$ (106,393)	\$ 500,738	\$ (502,271)

Six Months Ended October 31, 2008	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Elims	Consolidated H&R Block
Total revenues	\$ -	\$ 39,101	\$ 587,006	\$ (2,729)	\$ 623,378
Cost of services	-	7,271	692,621	16	699,908
Cost of other revenues	-	85,173	20,035	(31)	105,177
Selling, general and administrative	-	30,544	224,878	(182)	255,240
Total expenses	-	122,988	937,534	(197)	1,060,325
Operating loss	-	(83,887)	(350,528)	(2,532)	(436,947)
Other income (expense), net	(440,423)	(3,890)	414	440,423	(3,476)
Loss from continuing operations before tax benefit	(440,423)	(87,777)	(350,114)	437,891	(440,423)
Income tax benefit	(178,839)	(34,540)	(143,271)	177,811	(178,839)
Net loss from continuing operations	(261,584)	(53,237)	(206,843)	260,080	(261,584)
Net loss from discontinued operations	(7,009)	(8,464)	-	8,464	(7,009)
Net loss	\$ (268,593)	\$ (61,701)	\$ (206,843)	\$ 268,544	\$ (268,593)

Six Months Ended October 31, 2007	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Elims	Consolidated H&R Block
Total revenues	\$ -	\$ 127,528	\$ 526,951	\$ (3,769)	\$ 650,710
Cost of services	-	14,910	697,218	(55)	712,073
Cost of other revenues	-	83,636	15,059	-	98,695
Selling, general and administrative	-	33,803	233,368	(88)	267,083
Total expenses	-	132,349	945,645	(143)	1,077,851
Operating loss	-	(4,821)	(418,694)	(3,626)	(427,141)
Other income, net	(409,322)	(21)	17,840	409,322	17,819
Loss from continuing operations before tax benefit	(409,322)	(4,842)	(400,854)	405,696	(409,322)
Income tax benefit	(162,219)	(2,795)	(157,697)	160,492	(162,219)
Net loss from continuing operations	(247,103)	(2,047)	(243,157)	245,204	(247,103)
Net loss from discontinued operations	(557,748)	(554,603)	(3,590)	558,193	(557,748)
Net loss	\$ (804,851)	\$ (556,650)	\$ (246,747)	\$ 803,397	\$ (804,851)

Condensed Consolidating Balance Sheets					(in 000s)
October 31, 2008	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Elims	Consolidated H&R Block
Cash & cash equivalents	\$ -	\$ 233,600	\$ 597,473	\$ (137,447)	\$ 693,626
Cash & cash equivalents – restricted	-	167	647	-	814
Receivables, net	50	159,116	378,585	-	537,751
Mortgage loans held for investment	-	811,732	-	-	811,732
Intangible assets and goodwill, net	-	-	968,836	-	968,836
Investments in subsidiaries	3,842,440	-	269	(3,842,440)	269
Assets of discontinued operations	-	1,039,683	-	-	1,039,683
Other assets	-	371,507	1,000,529	-	1,372,036
Total assets	\$ 3,842,490	\$ 2,615,805	\$ 2,946,339	\$ (3,979,887)	\$ 5,424,747
Customer deposits	\$ -	\$ 885,916	\$ -	\$ (137,447)	\$ 748,469
Long-term debt	-	1,691,690	42,077	-	1,733,767
FHLB borrowings	-	104,000	-	-	104,000
Liabilities of discontinued operations	-	745,419	-	-	745,419
Other liabilities	386	177,705	1,082,299	40	1,260,430
Net intercompany advances	3,009,442	(1,165,977)	(1,843,425)	(40)	-
Stockholders' equity	832,662	177,052	3,665,388	(3,842,440)	832,662
Total liabilities and stockholders' equity	\$ 3,842,490	\$ 2,615,805	\$ 2,946,339	\$ (3,979,887)	\$ 5,424,747
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April 30, 2008	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Elims	Consolidated H&R Block
Cash & cash equivalents	\$ -	\$ 34,611	\$ 630,933	\$ (647)	\$ 664,897
Cash & cash equivalents – restricted	-	6,214	817	-	7,031
Receivables, net	139	122,756	411,334	-	534,229
Mortgage loans held for investment	-	966,301	-	-	966,301
Intangible assets and goodwill, net	-	-	978,682	-	978,682
Investments in subsidiaries	4,131,345	-	322	(4,131,345)	322
Assets of discontinued operations	-	987,592	-	-	987,592
Other assets	-	514,463	969,896	12	1,484,371
Total assets	\$ 4,131,484	\$ 2,631,937	\$ 2,991,984	\$ (4,131,980)	\$ 5,623,425
Customer deposits	\$ -	\$ 786,271	\$ -	\$ (647)	\$ 785,624
Long-term debt	-	997,885	41,185	-	1,039,070
FHLB borrowings	-	129,000	-	-	129,000
Liabilities of discontinued operations	-	644,446	-	-	644,446
Other liabilities	2	466,236	1,571,178	51	2,037,467
Net intercompany advances	3,143,664	(632,522)	(2,511,103)	(39)	-
Stockholders' equity	987,818	240,621	3,890,724	(4,131,345)	987,818
Total liabilities and stockholders' equity	\$ 4,131,484	\$ 2,631,937	\$ 2,991,984	\$ (4,131,980)	\$ 5,623,425

Condensed Consolidating Statements of Cash Flows						(in 000s)
Six Months Ended	H&R Block, Inc.	BFC	Other		Consolidated	
October 31, 2008	(Guarantor)	(Issuer)	Subsidiaries	Elims	H&R Block	
Net cash used in operating activities:	\$ (6,752)	\$ (40,397)	\$ (618,782)	\$ -	\$ (665,931)	
Cash flows from investing:						
Mortgage loans originated for investment, net	-	54,501	-	-	54,501	
Purchase property & equipment	-	(6,822)	(51,764)	-	(58,586)	
Payments for business acquisitions	-	-	(4,709)	-	(4,709)	
Net intercompany advances	(112,550)	-	-	112,550	-	
Investing cash flows of discontinued operations	-	(48,917)	-	-	(48,917)	
Other, net	-	4,407	4,503	-	8,910	
Net cash provided by (used in) investing activities	(112,550)	3,169	(51,970)	112,550	(48,801)	
Cash flows from financing:						
Repayments of short-term borrowings	-	(100,000)	-	-	(100,000)	
Proceeds from short-term borrowings	-	768,625	-	-	768,625	
Customer deposits	-	96,205	-	(136,800)	(40,595)	
Dividends paid	(96,555)	-	-	-	(96,555)	
Acquisition of treasury shares	(4,467)	-	-	-	(4,467)	
Proceeds from stock options	61,699	-	-	-	61,699	
Proceeds from issuance of stock	141,558	-	-	-	141,558	
Net intercompany advances	-	(533,396)	645,946	(112,550)	-	
Financing cash flows of discontinued operations	-	4,783	-	-	4,783	
Other, net	17,067	-	(8,654)	-	8,413	
Net cash provided by financing activities	119,302	236,217	637,292	(249,350)	743,461	
Net increase (decrease) in cash	-	198,989	(33,460)	(136,800)	28,729	
Cash – beginning of period	-	34,611	630,933	(647)	664,897	
Cash – end of period	\$ -	\$ 233,600	\$ 597,473	\$ (137,447)	\$ 693,626	

[Table of Contents](#)

Six Months Ended October 31, 2007	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Elims	Consolidated H&R Block
Net cash provided by (used in) operating activities:	\$ 19,051	\$ (272,796)	\$ (685,673)	\$ -	\$ (939,418)
Cash flows from investing:					
Mortgage loans originated for investment, net	-	76,889	-	-	76,889
Purchase property & equipment	-	(5,087)	(41,113)	-	(46,200)
Payments for business acquisitions	-	-	(21,037)	-	(21,037)
Net intercompany advances	58,196	-	-	(58,196)	-
Investing cash flows of discontinued operations	-	4,541	3,673	-	8,214
Other, net	-	4,951	(86)	-	4,865
Net cash provided by (used in) investing activities	58,196	81,294	(58,563)	(58,196)	22,731
Cash flows from financing:					
Repayments of commercial paper	-	(5,125,279)	-	-	(5,125,279)
Proceeds from commercial paper	-	4,133,197	-	-	4,133,197
Repayments of other borrowings	-	(1,005,000)	-	-	(1,005,000)
Proceeds from other borrowings	-	2,555,000	-	-	2,555,000
Customer deposits	-	(243,030)	-	-	(243,030)
Dividends paid	(90,495)	-	-	-	(90,495)
Acquisition of treasury shares	(5,672)	-	-	-	(5,672)
Proceeds from issuance of common stock	13,434	-	-	-	13,434
Net intercompany advances	-	(382,897)	324,701	58,196	-
Financing cash flows of discontinued operations	-	191,546	-	-	191,546
Other, net	5,486	18,532	(63,248)	-	(39,230)
Net cash provided by (used in) financing activities	(77,247)	142,069	261,453	58,196	384,471
Net decrease in cash	-	(49,433)	(482,783)	-	(532,216)
Cash – beginning of period	-	60,197	756,720	-	816,917
Cash – end of period	\$ -	\$ 10,764	\$ 273,937	\$ -	\$ 284,701

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

H&R Block provides tax services, banking services and business and consulting services. Our Tax Services segment provides income tax return preparation services, electronic filing services and other services and products related to income tax return preparation to the general public primarily in the United States, Canada and Australia. Our Business Services segment consists of RSM McGladrey, Inc. (RSM), a national accounting, tax and business consulting firm primarily serving mid-sized businesses. Our Consumer Financial Services segment offers retail banking through H&R Block Bank (HRB Bank).

On August 12, 2008, we announced the signing of a definitive agreement to sell H&R Block Financial Advisors, Inc. (HRBFA) to Ameriprise Financial, Inc. (Ameriprise), and completed the disposition of this business effective November 1, 2008. At October 31, 2008, we met the criteria requiring us to present the results of operations of HRBFA and its direct corporate parent as discontinued operations, and the related assets and liabilities as held for sale in the condensed consolidated financial statements. All periods presented have been reclassified to reflect our discontinued operations. See additional discussion in note 15 to our condensed consolidated financial statements.

TAX SERVICES

This segment primarily consists of our income tax preparation businesses — retail, online and software. Additionally, this segment includes commercial tax businesses, which provide tax preparation software to CPAs and other tax preparers.

Tax Services – Operating Results		(in 000s)			
	Three Months Ended		Six Months Ended		
	2008	October 31, 2007	2008	October 31, 2007	
Service revenues:					
Tax preparation fees	\$ 56,907	\$ 49,463	\$ 86,339	\$ 74,387	
Other services	32,501	31,578	71,284	68,927	
	89,408	81,041	157,623	143,314	
Royalties	5,299	4,919	8,983	7,761	
Other	4,397	4,844	7,763	9,592	
Total revenues	99,104	90,804	174,369	160,667	
Cost of services:					
Compensation and benefits	63,684	61,473	107,881	107,613	
Occupancy	80,937	80,108	160,287	155,068	
Depreciation	8,186	8,450	16,205	16,610	
Other	45,398	46,302	93,075	101,467	
	198,205	196,333	377,448	380,758	
Cost of other revenues, selling, general and administrative	85,464	93,620	145,409	151,347	
Total expenses	283,669	289,953	522,857	532,105	
Pretax loss	\$(184,565)	\$(199,149)	\$(348,488)	\$(371,438)	

Three months ended October 31, 2008 compared to October 31, 2007

Tax Services' revenues increased \$8.3 million, or 9.1%, for the three months ended October 31, 2008 compared to the prior year. Tax preparation fees increased \$7.4 million, or 15.0% primarily due to an increase of 12.4% in our U.S. retail clients served in company-owned offices and favorable results in Australia. Approximately half of the increase in U.S. retail clients served was due to Economic Stimulus Act filers. Favorable results in Australia were primarily due to an increase in clients served and changes in foreign currency exchange rates.

Total expenses decreased \$6.3 million, or 2.2%, for the three months ended October 31, 2008. Cost of other revenues, selling, general and administrative expenses decreased \$8.2 million, or 8.7%, primarily as a result of

an \$11.3 million reduction in bad debt expense on refund anticipation loans (RALs) compared to the prior year. This decline was due to prior year changes initiated by the Internal Revenue Service's (IRS) taxpayer fraud detection system and penalty collection practices, which resulted in a larger number of refund claims denied during the prior year. This decrease was partially offset by other cost increases.

The pretax loss for the three months ended October 31, 2008 was \$184.6 million, compared to a loss of \$199.1 million in the prior year.

Six months ended October 31, 2008 compared to October 31, 2007

Tax Services' revenues increased \$13.7 million, or 8.5%, for the six months ended October 31, 2008 compared to the prior year. Tax preparation fees increased \$12.0 million, or 16.1% primarily due to an increase of 13.3% in our U.S. retail clients served in company-owned offices and favorable results in Australia. Approximately half of the increase in U.S. retail clients served was due to Economic Stimulus Act filers.

Total expenses decreased \$9.2 million, or 1.7%, for the six months ended October 31, 2008. Cost of services decreased \$3.3 million, or 0.9%, from the prior year, as lower supplies expenses were partially offset by higher occupancy expenses. Other cost of services decreased \$8.4 million, or 8.3%, primarily as a result of a \$6.0 million decrease in supplies expenses as our tax training schools move to more computer-based training. Occupancy expenses increased \$5.2 million, or 3.4%, primarily as a result of higher rent expenses due to a 1.6% increase in company-owned offices under lease and a 2.3% increase in the average rent.

Cost of other revenues, selling, general and administrative expenses decreased \$5.9 million, or 3.9%, primarily as a result of an \$11.3 million reduction in RAL bad debt expense compared to the prior year, partially offset by other cost increases.

The pretax loss for the six months ended October 31, 2008 was \$348.5 million, compared to a loss of \$371.4 million in the prior year.

BUSINESS SERVICES

This segment offers accounting, tax and consulting services to middle-market companies.

Business Services – Operating Statistics

	Three Months Ended October 31,		Six Months Ended October 31,	
	2008	2007	2008	2007
Accounting, tax and consulting:				
Chargeable hours	1,192,307	1,273,112	2,155,851	2,312,302
Chargeable hours per person	319	325	603	599
Net billed rate per hour	\$ 150	\$ 147	\$ 146	\$ 146
Average margin per person	\$ 24,981	\$ 29,824	\$ 43,588	\$ 49,049

Business Services – Operating Results	(in 000s)			
		Three Months Ended October 31,		Six Months Ended October 31,
	2008	2007	2008	2007
Tax services	\$ 110,569	\$ 104,654	\$ 186,870	\$ 179,826
Business consulting	73,121	63,803	126,757	116,092
Accounting services	13,421	14,760	26,381	29,685
Capital markets	4,965	13,213	10,783	23,947
Leased employee revenue	32	10,125	50	21,496
Reimbursed expenses	4,330	4,719	8,535	10,567
Other	26,607	27,774	48,320	50,258
Total revenues	233,045	239,048	407,696	431,871
Cost of revenues:				
Compensation and benefits	138,103	142,640	242,042	257,295
Occupancy	20,934	17,814	39,594	35,676
Other	15,155	24,909	30,321	43,557
	174,192	185,363	311,957	336,528
Amortization of intangible assets	3,350	3,574	6,769	7,200
Selling, general and administrative	42,422	38,330	76,184	78,268
Total expenses	219,964	227,267	394,910	421,996
Pretax income	\$ 13,081	\$ 11,781	\$ 12,786	\$ 9,875

Three months ended October 31, 2008 compared to October 31, 2007

Business Services' revenues for the three months ended October 31, 2008 declined \$6.0 million, or 2.5% from the prior year.

Tax revenues increased \$5.9 million due to increases in net billed rate per hour and productivity. Business consulting revenues increased \$9.3 million primarily due to a large one time financial institutions engagement. Capital markets revenues decreased \$8.2 million, primarily due to a fewer number of transactions closed in the current year as well as a 21.9% decrease in revenue per transaction.

Leased employee revenue decreased \$10.1 million primarily due to a change in organizational structure between the businesses we acquired from American Express Tax and Business Services, Inc. (AmexTBS) and the attest firms that, while not affiliates of our company, also serve our clients. Employees we previously leased to the attest firms were transferred to the separate attest practices in the prior fiscal year. As a result, we no longer record the revenues and expenses associated with leasing these employees.

Total expenses decreased \$7.3 million, or 3.2%, from the prior year. Compensation and benefits and other cost of revenues decreased primarily due to the change in organizational structure with AmexTBS as discussed above. Selling, general and administrative expenses increased \$4.1 million primarily due to higher legal fees and insurance expenses.

Pretax income for the three months ended October 31, 2008 was \$13.1 million compared to \$11.8 million in the prior year.

Six months ended October 31, 2008 compared to October 31, 2007

Business Services' revenues for the six months ended October 31, 2008 declined \$24.2 million, or 5.6% from the prior year.

Tax revenues increased \$7.0 million due to increases in net billed rate per hour and productivity. Business consulting revenues increased \$10.7 million primarily due to a large one time financial institutions engagement. Capital markets revenues decreased \$13.2 million, primarily due to a fewer number of transactions closed in the current year as well as a 36.0% decrease in revenue per transaction.

Leased employee revenue decreased \$21.4 million primarily due to a change in organizational structure between the businesses we acquired from AmexTBS, as discussed above.

Total expenses decreased \$27.1 million, or 6.4%, from the prior year. Compensation and benefits and other cost of revenues decreased primarily due to the change in organizational structure with AmexTBS as discussed above. Selling, general and administrative expenses decreased \$2.1 million primarily as a result of our cost reduction program.

Pretax income for the six months ended October 31, 2008 was \$12.8 million compared to \$9.9 million in the prior year.

CONSUMER FINANCIAL SERVICES

This segment is engaged in providing retail banking offerings to Tax Services clients through HRB Bank. HRB Bank offers traditional banking services including prepaid debit card accounts, checking and savings accounts, individual retirement accounts and certificates of deposit. This segment previously included HRBFA, which has been presented as a discontinued operation in the accompanying condensed consolidated financial statements.

Consumer Financial Services – Operating Statistics		(dollars in 000s)			
	Three Months Ended October 31,		Six Months Ended October 31,		
	2008	2007	2008	2007	
Efficiency ratio (1)	61%	38%	76%	38%	
Annualized net interest margin (2)	3.27%	2.48%	3.42%	2.30%	
Annualized pretax return on average assets (3)	(7.05)%	(1.38)%	(6.15)%	0.06%	
Total assets	\$1,179,467	\$1,179,453	\$1,179,467	\$1,179,453	
Mortgage loans held for investment:					
Loan loss reserve as a % of mortgage loans	7.27%	1.40%	7.27%	1.40%	
Delinquency rate	11.65%	1.96%	11.65%	1.96%	

- (1) Defined as non-interest expense divided by revenue net of interest expense. See "Reconciliation of Non-GAAP Financial Information" at the end of Part I, Item 2.
- (2) Defined as annualized net interest revenue divided by average bank earning assets. See "Reconciliation of Non-GAAP Financial Information" at the end of Part I, Item 2.
- (3) Defined as annualized pretax banking income divided by average bank assets. See "Reconciliation of Non-GAAP Financial Information" at the end of Part I, Item 2.

Consumer Financial Services – Operating Results		(in 000s)			
	Three Months Ended October 31,		Six Months Ended October 31,		
	2008	2007	2008	2007	
Interest income:					
Mortgage loans	\$ 12,098	\$20,451	\$ 25,363	\$ 42,942	
Other	1,008	887	2,274	2,032	
	<u>13,106</u>	<u>21,338</u>	<u>27,637</u>	<u>44,974</u>	
Interest expense:					
Deposits	3,884	12,221	7,927	26,464	
FHLB advances	1,327	1,470	2,655	3,360	
	<u>5,211</u>	<u>13,691</u>	<u>10,582</u>	<u>29,824</u>	
Net interest income	7,895	7,647	17,055	15,150	
Provision for loan loss reserves	(23,092)	(9,842)	(38,083)	(11,926)	
Other	3,729	1,784	8,148	5,330	
Total revenues (1)	<u>(11,468)</u>	<u>(411)</u>	<u>(12,880)</u>	<u>8,554</u>	
Non-interest expenses	7,161	3,998	19,866	8,121	
Pretax income (loss)	<u>\$ (18,629)</u>	<u>\$ (4,409)</u>	<u>\$ (32,746)</u>	<u>\$ 433</u>	

- (1) Total revenues, less provision for loan loss reserves on mortgage loans held for investment and interest expense.

Three months ended October 31, 2008 compared to October 31, 2007

Consumer Financial Services' revenues, net of interest expense and provision for loan loss reserves, for the three months ended October 31, 2008 decreased \$11.1 million over the prior year.

[Table of Contents](#)

Net interest income was essentially flat compared to the prior year. Interest expense and interest income are both declining due to lower interest rates and lower average balances in the corresponding liability or asset. Interest income is also declining due to an increase in non-accrual loans from \$2.8 million at October 31, 2007 to \$150.8 million at October 31, 2008. The following table summarizes the key drivers of net interest income:

Three Months Ended October 31,	(dollars in 000s)			
	Average Balance		Average Rate Earned (Paid)	
	2008	2007	2008	2007
Loans	\$ 905,161	\$ 1,194,567	5.56%	6.85%
Investments	114,726	65,318	1.81%	5.41%
Deposits	775,925	964,809	(1.99)%	(5.03)%

Our non-performing assets consist of the following:

Balance at	(in 000s)	
	October 31, 2008	April 30, 2008
Impaired loans	\$ 150,802	\$ 128,941
Real estate owned(1)	53,203	350
Total non-performing assets	\$ 204,005	\$ 129,291

(1) Includes loans accounted for as in-substance foreclosures of \$39.7 million at October 31, 2008.

Detail of our mortgage loans held for investment and the related allowance at October 31, 2008 and April 30, 2008 is as follows:

	(dollars in 000s)			
	Outstanding Principal Balance	Loan Loss Allowance	% 30-Days Past Due	Average FICO
As of October 31, 2008:				
Purchased from former affiliates:				
Option One	\$ 562,403	\$ 60,408	16.72%	655
H&R Block Mortgage	48,455	806	4.62%	690
	<u>610,858</u>	<u>61,214</u>	<u>15.76%</u>	<u>658</u>
Purchased from third-parties	258,193	2,438	1.70%	726
	<u>\$ 869,051</u>	<u>\$ 63,652</u>	<u>11.65%</u>	<u>678</u>
As of April 30, 2008:				
Purchased from former affiliates:				
Option One	\$ 683,889	\$ 43,769	17.53%	664
H&R Block Mortgage	50,769	411	3.00%	696
	<u>734,658</u>	<u>44,180</u>	<u>16.30%</u>	<u>666</u>
Purchased from third-parties	269,982	1,221	1.90%	726
	<u>\$ 1,004,640</u>	<u>\$ 45,401</u>	<u>11.71%</u>	<u>682</u>

Mortgage loans held for investment include loans originated by our former mortgage loan affiliates, Option One and H&R Block Mortgage (HRBMC), and purchased by HRB Bank totaling \$610.9 million, or approximately 70% of the total loan portfolio at October 31, 2008. Loans originated by and purchased from Option One have characteristics which are representative of Alt-A loans – loans to customers who have credit ratings above sub-prime, but may not conform to government-sponsored standards. As such, we have experienced higher rates of delinquency and have greater exposure to loss with respect to this segment of our loan portfolio. Cumulative losses on our original loan portfolio purchased from Option One, including losses on loans now classified as other real estate, totaled approximately 13% at October 31, 2008. Our remaining loan portfolio, which was purchased from HRBMC and third-parties totaled \$48.3 million and \$258.2 million, respectively, and is characteristic of a prime loan portfolio and we believe subject to a lower loss exposure.

We recorded a provision for loan losses on our mortgage loans held for investment of \$23.1 million during the current quarter, compared to \$9.8 million in the prior year. Our loan loss provision increased primarily as a result of abrupt and steep declines in residential home prices, particularly in certain states where we have a higher concentration of loans. Our allowance for loan losses as a percent of mortgage loans was 7.27%, or

\$63.7 million, at October 31, 2008, compared to 4.49%, or \$45.4 million, at April 30, 2008. This allowance represents our best estimate of credit losses inherent in the loan portfolio as of the balance sheet dates.

In estimating our loan loss allowance, we stratify the loan portfolio based on our view of risk associated with various elements of the pool and assign estimated loss rates based on those risks. Loss rates are based primarily on historical experience and our assessment of economic and market conditions. Loss rates consider both the rate at which loans will become delinquent (frequency) and the amount of loss that will ultimately be realized upon occurrence of a liquidation of collateral (severity). At October 31, 2008 and April 30, 2008 our weighted average frequency assumption was approximately 15% and 14%, respectively, and included a frequency assumption of 21% relating to the Option One segment of our portfolio. Our weighted average severity assumption increased to 37.5% at October 31, 2008 from 22% at April 30, 2008, due to declining collateral values during the current year.

Residential real estate markets are experiencing significant declines in property values and mortgage default rates are increasing. If adverse market trends continue, including trends within our portfolio specifically, we may be required to record additional loan loss provisions, and those losses may be significant.

Non-interest expenses increased \$3.2 million, or 79.2%, from the prior year, primarily due to increased allocations of corporate shared services.

The pretax loss for the three months ended October 31, 2008 was \$18.6 million compared to prior year loss of \$4.4 million.

Six months ended October 31, 2008 compared to October 31, 2007

Consumer Financial Services' revenues, net of interest expense and provision for loan loss reserves, for the six months ended October 31, 2008 decreased \$21.4 million over the prior year.

Net interest income increased \$1.9 million from the prior year as a \$17.6 million decline in interest income on mortgage loans held for investment was offset by an \$18.5 million decline in interest expense on deposits. The following table summarizes the key drivers of net interest income:

Six Months Ended October 31,	Average Balance		Average Rate Earned (Paid)	
	2008	2007	2008	2007
Loans	\$ 943,209	\$1,266,719	5.38%	6.78%
Investments	96,941	75,249	2.14%	5.38%
Deposits	706,102	1,034,852	(2.23)%	(5.07)%

We recorded a provision for loan losses on our mortgage loans held for investment of \$38.1 million during the current year, compared to \$11.9 million in the prior year. Our loan loss provision increased primarily as a result of declining residential home prices, as well as increasing delinquencies occurring in our portfolio.

Non-interest expenses increased \$11.7 million, or 144.6%, from the prior year, primarily due to an impairment charge of \$5.9 million recorded on our real estate owned and increased allocations of corporate shared services.

The pretax loss for the six months ended October 31, 2008 was \$32.7 million compared to prior year income of \$0.4 million.

Mortgage Loans Held for Investment and Related Assets

State Concentrations

Concentrations of loans to borrowers located in a single state may result in increased exposure to loss as a result of changes in real estate values and underlying economic or market conditions related to a particular

Table of Contents

geographical location. The table below presents outstanding loans by certain state concentrations for our mortgage loans held for investment portfolio:

	(dollars in 000s)					
	Loans Purchased From Affiliates	Loans Purchased From Third-Parties	Total	Percent of Total	Delinquency Rate	
Florida	\$ 70,899	\$ 95,746	\$ 166,645	19%	12.17%	
California	132,695	14,857	147,552	17%	19.12%	
New York	106,536	8,584	115,120	13%	12.38%	
Wisconsin	2,253	76,282	78,535	9%	1.84%	
All others	298,475	62,724	361,199	42%	10.24%	
Total	<u>\$ 610,858</u>	<u>\$ 258,193</u>	<u>\$ 869,051</u>	100%	11.65%	

Real Estate Owned

Amounts classified as real estate owned as of October 31, 2008 and April 30, 2008 totaled \$53.2 million and \$0.3 million, respectively. The table below presents activity related to our real estate owned:

	(in 000s)
Six Months Ended October 31,	2008
Balance, beginning of the period	\$ 350
Additions	62,578
Sales	(3,787)
Writedowns	(5,938)
Balance, end of the period	<u>\$53,203</u>

CORPORATE, ELIMINATIONS AND INCOME TAXES ON CONTINUING OPERATIONS

Three months ended October 31, 2008 compared to October 31, 2007

The pretax loss recorded in our corporate operations for the three months ended October 31, 2008 was \$37.3 million compared to \$30.0 million in the prior year. The increased loss is primarily due to \$9.9 million in incremental interest expense, which resulted from our corporate operations absorbing current year financing costs for all long-term debt, and a \$7.6 million decline in investment income. In the prior year, financing costs were primarily related to borrowings incurred to cover losses of our mortgage business, and related interest costs were therefore reported in discontinued operations. These unfavorable changes were partially offset by benefits resulting from the cost reduction program implemented earlier this year.

Our effective tax rate for continuing operations was 41.5% and 39.2% for the three months ended October 31, 2008 and 2007, respectively. Our effective tax rate increased primarily due to changes in our estimated state tax rate and non-deductible losses from investments in company-owned life insurance assets.

Six months ended October 31, 2008 compared to October 31, 2007

The pretax loss recorded in our corporate operations for the six months ended October 31, 2008 was \$72.0 million compared to \$48.2 million in the prior year. The increased loss is primarily due to \$17.3 million in incremental interest expense resulting from our corporate operations absorbing current year financing costs for all long-term debt. We also experienced a \$13.8 million decline in investment income due to lower cash balances and recorded \$5.2 million in net impairments of residual interests in securitizations in the current year. These unfavorable changes were partially offset by benefits resulting from the cost reduction program implemented earlier this year.

Our effective tax rate for continuing operations was 40.6% and 39.6% for the six months ended October 31, 2008 and 2007, respectively. Our effective tax rate increased primarily due to changes in our estimated state tax rate.

DISCONTINUED OPERATIONS

On August 12, 2008, we announced the signing of a definitive agreement to sell HRBFA to Ameriprise. The disposition of this business was completed effective November 1, 2008. At October 31, 2008, we met the

criteria requiring us to present the results of operations of HRBFA and its direct corporate parent as discontinued operations, and the related assets and liabilities as held for sale in the condensed consolidated financial statements. All periods presented have been reclassified to reflect our discontinued operations. See additional discussion in note 15 to our condensed consolidated financial statements.

Discontinued operations also includes the wind-down of our mortgage loan origination business and the sale of our mortgage loan servicing business in the prior year. Also included in the prior year are the results of three smaller lines of business previously reported in our Business Services segment.

Three months ended October 31, 2008 compared to October 31, 2007

The pretax loss of our discontinued operations for the three months ended October 31, 2008 was \$21.8 million compared to a loss of \$553.1 million in the prior year. The loss from discontinued operations for the prior year period included significant losses from our former mortgage loan businesses, including impairments of residual interests of \$61.7 million, losses relating to loan repurchase obligations of \$172.7 million and losses on the sale of mortgage loans totaling \$58.3 million.

During the quarter, we recorded a deferred tax asset totaling \$165 million, representing the difference between the tax and book basis in the stock of our brokerage business sold to Ameriprise in November. For tax purposes, we incurred a capital loss upon disposition of that business, which generally can only be utilized to the extent we realize capital gains within five years subsequent to the date of the loss. We don't currently expect to be able to realize a tax benefit for substantially all of this loss and, therefore, recorded a valuation allowance of \$155 million, resulting in a net tax benefit during the quarter of approximately \$10 million. Our effective tax rate for discontinued operations was 87.5% and 33.6% for the three months ended October 31, 2008 and 2007, respectively. Our effective tax rate increased primarily due to the aforementioned tax benefit.

Six months ended October 31, 2008 compared to October 31, 2007

The pretax loss of our discontinued operations for the six months ended October 31, 2008 was \$27.4 million compared to a loss of \$884.6 million in the prior year. The loss from discontinued operations for the prior year period included significant losses from our former mortgage loans businesses, including impairments of residual interests of \$111.3 million, losses relating to loan repurchase obligations of \$330.0 million, and losses on the sale of mortgage loans totaling \$115.7 million.

Our effective tax rate for discontinued operations was 74.4% and 36.9% for the six months ended October 31, 2008 and 2007, respectively. As discussed above, our effective tax rate increased primarily due to tax benefits in connection with the disposition of HRBFA.

FINANCIAL CONDITION

These comments should be read in conjunction with the condensed consolidated balance sheets, condensed consolidated statements of cash flows and condensed consolidated statements of stockholders' equity found on pages 1, 3 and 4, respectively.

CAPITAL RESOURCES & LIQUIDITY BY SEGMENT

Our sources of capital include cash from operations, issuances of common stock and debt. We use capital primarily to fund working capital, pay dividends, repurchase treasury shares and acquire businesses. Our operations are highly seasonal and therefore generally require the use of cash to fund operating losses during the period May through December.

Given the likely availability of a number of liquidity options discussed herein, including borrowing capacity under our unsecured committed lines of credit (CLOCs), we believe, that in the absence of any unexpected developments, our existing sources of capital at October 31, 2008 are sufficient to meet our operating needs.

Cash From Operations. Cash used in operating activities for the first six months of fiscal year 2009 totaled \$665.9 million, compared with \$939.4 million for the same period last year. The change was due primarily to lower losses and reduced working capital requirements of our discontinued businesses.

Debt. We borrow under our CLOCs to support working capital requirements primarily arising from off-season operating losses in our Tax Services and Business Services segments, pay dividends, repurchase treasury shares and acquire businesses. We had \$693.6 million outstanding under our CLOCs at October 31, 2008. See additional discussion in "Borrowings."

Issuance of Common Stock. On October 27, 2008, we sold 8.3 million shares of our common stock, without par value, at a price of \$17.50 per share in a registered direct offering through subscription agreements with selected institutional investors. We received net proceeds of \$141.6 million, after deducting placement agent fees and other offering expenses. The purpose of the equity offering was to ensure we maintained adequate equity levels, as a condition of our CLOCs, during our off-season. Proceeds were used for general corporate purposes.

Proceeds from the issuance of common stock in accordance with our stock-based compensation plans totaled \$71.4 million and \$17.2 million for the six months ended October 31, 2008 and 2007, respectively.

Dividends. Dividends paid totaled \$96.6 million and \$90.5 million for the six months ended October 31, 2008 and 2007, respectively.

Share Repurchases. In June 2008, our Board of Directors rescinded the previous authorizations to repurchase shares of our common stock, and approved an authorization to purchase up to \$2.0 billion of our common stock over the next four years. We did not repurchase shares during the six months ended October 31, 2008, and do not expect to repurchase shares prior to our fourth quarter.

Segment Cash Flows. A condensed consolidating statement of cash flows by segment for the six months ended October 31, 2008 is as follows:

	(in 000s)					
	Tax Services	Business Services	Consumer Financial Services	Corporate	Discontinued Operations	Consolidated H&R Block
Cash provided by (used in):						
Operations	\$(387,709)	\$ (58,728)	\$ 31,911	\$(339,020)	\$ 87,615	\$ (665,931)
Investing	(17,303)	(16,451)	57,799	(23,929)	(48,917)	(48,801)
Financing	(12,244)	2,214	70,804	677,904	4,783	743,461
Net intercompany	405,767	58,502	60,364	(481,152)	(43,481)	-

Tax Services. Tax Services has historically been our largest provider of annual operating cash flows. The seasonal nature of Tax Services generally results in a large positive operating cash flow in our fourth quarter. Tax Services used \$387.7 million in its current six-month operations to cover off-season costs and working capital requirements. This segment used \$17.3 million in investing activities primarily related to capital expenditures, and used \$12.2 million in financing activities related to uncashed checks.

Business Services. Business Services funding requirements are largely related to receivables for completed work and “work in process.” We provide funding sufficient to cover their working capital needs. This segment used \$58.7 million in operating cash flows during the first six months of the year to cover off-season costs and working capital requirements. Business Services used \$16.5 million in investing activities primarily related to capital expenditures.

Consumer Financial Services. In the first six months of fiscal year 2009, Consumer Financial Services provided \$57.8 million in investing activities primarily from principal payments received on mortgage loans held for investment and provided \$70.8 million in financing activities due to changes in deposits held for affiliates, partially offset by the repayment of \$25.0 million in Federal Home Loan Bank (FHLB) advances.

HRB Bank is a member of the FHLB of Des Moines, which extends credit to member banks based on eligible collateral. At October 31, 2008, HRB Bank had total FHLB advance capacity of \$265.3 million. There was \$104.0 million outstanding on this facility, leaving remaining availability of \$161.3 million. Mortgage loans held for investment of \$770.8 million serve as eligible collateral and are used to determine total capacity.

BORROWINGS

The following chart provides the debt ratings for Block Financial LLC (BFC) as of October 31, 2008 and April 30, 2008:

	October 31, 2008			April 30, 2008		
	Short-term	Long-term	Outlook	Short-term	Long-term	Outlook
Fitch	F2	BBB	Stable	F3	BBB	Negative
Moody's(1)	P2	Baa1	Negative	P2	Baa1	Negative
S&P	A2	BBB	Positive	A3	BBB-	Negative
DBRS(2)	R-2(high)	BBB (high)	Stable	R-2 (high)	BBB (high)	Negative

(1) Outlook of "Stable" effective November 11, 2008.

(2) Outlook of "Positive" effective November 3, 2008.

At October 31, 2008, we maintained \$2.0 billion in revolving credit facilities to support commercial paper issuance and for general corporate purposes. These unsecured committed lines of credit (CLOCs), and outstanding borrowings thereunder, have a maturity date of August 2010 and an annual facility fee in a range of six to fifteen basis points per annum, based on our credit ratings. We had \$693.6 million outstanding as of October 31, 2008 to support working capital requirements primarily arising from off-season operating losses, to pay dividends and acquire businesses. These borrowings are included in long-term debt on our condensed consolidated balance sheet due to their contractual maturity date. The CLOCs, among other things, require we maintain at least \$650.0 million of net worth on the last day of any fiscal quarter. We had net worth of \$832.7 million at October 31, 2008.

Lehman Brothers Bank, FSB (Lehman) is a participating lender in our \$2.0 billion CLOCs, with a \$50.0 million credit commitment. In September 2008, Lehman's parent company declared bankruptcy. Since then, Lehman has not honored any funding requests under these facilities, thereby effectively reducing our available liquidity under our CLOCs to \$1.95 billion. We do not expect this change to have a material impact on our liquidity or consolidated financial statements.

Other than the changes outlined above, there have been no material changes in our borrowings from those reported at April 30, 2008 in our Annual Report on Form 10-K.

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

There have been no material changes in our contractual obligations and commercial commitments from those reported at April 30, 2008 in our Annual Report on Form 10-K.

REGULATORY ENVIRONMENT

Effective October 27, 2008, the Financial Industry Regulatory Authority approved our request to sell HRBFA to Ameriprise, and that disposition was completed effective November 1, 2008.

There have been no other material changes in our regulatory environment from those reported at April 30, 2008 in our Annual Report on Form 10-K.

FORWARD-LOOKING INFORMATION

This report and other documents filed with the Securities and Exchange Commission (SEC) may contain forward-looking statements. In addition, our senior management may make forward-looking statements orally to analysts, investors, the media and others. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. They often include words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates," "will," "would," "should," "could" or "may." Forward-looking statements provide management's current expectations or predictions of future conditions, events or results. They may include projections of revenues, income, earnings per share, capital expenditures, dividends, liquidity, capital structure or other financial items, descriptions of management's plans or objectives for future operations, products or services, or descriptions of assumptions underlying any of the above. They are not guarantees of future performance. By their nature, forward-looking statements are subject to risks and uncertainties. These statements speak only as of the date made and management does not undertake to update them to reflect changes or events occurring after that date except as required by federal securities laws.

RECONCILIATION OF NON-GAAP FINANCIAL INFORMATION

We report our financial results in accordance with generally accepted accounting principles (GAAP). However, we believe certain non-GAAP performance measures and ratios used in managing the business may provide additional meaningful comparisons between current year results and prior periods. Reconciliations to GAAP financial measures are provided below. These non-GAAP financial measures should be viewed in addition to, not as an alternative for, our reported GAAP results.

Banking Ratios	(dollars in 000s)			
	Three Months Ended October 31,		Six Months Ended October 31,	
	2008	2007	2008	2007
Efficiency Ratio:				
Total Consumer Financial Services expenses	\$ 35,464	\$ 27,531	\$ 68,531	\$ 49,870
Less: Interest and provisions for loan losses	28,213	23,860	48,459	42,075
Non-interest expenses	\$ 7,251	\$ 3,671	\$ 20,072	\$ 7,795
Total Consumer Financial Services revenues	\$ 16,835	\$ 23,122	\$ 35,785	\$ 50,303
Less: Interest expense and other expenses	4,924	13,485	9,229	29,617
Banking revenue – net of interest expense	\$ 11,911	\$ 9,637	\$ 26,556	\$ 20,686
	61%	38%	76%	38%
Net Interest Margin (annualized):				
Net banking interest revenue	\$ 7,895	\$ 7,647	\$ 17,055	\$ 15,150
Net banking interest revenue (annualized)	\$ 31,580	\$ 31,026	\$ 34,110	\$ 30,773
Divided by average bank earning assets	\$ 965,421	\$ 1,252,467	\$ 996,188	\$ 1,335,726
	3.27%	2.48%	3.42%	2.30%
Return on Average Assets (annualized):				
Pretax banking income	\$ (18,629)	\$ (4,409)	\$ (32,746)	\$ 433
Pretax banking income (annualized)	\$ (74,516)	\$ (17,636)	\$ (65,492)	\$ 866
Divided by average bank assets	\$ 1,057,372	\$ 1,274,284	\$ 1,064,259	\$ 1,358,212
	(7.05%)	(1.38%)	(6.15%)	0.06%

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in our market risks from those reported at April 30, 2008 in our Annual Report on Form 10-K.

ITEM 4. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

As of the end of the period covered by this Form 10-Q, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures. The controls evaluation was done under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer. Based on this evaluation, we have concluded that our disclosure controls and procedures were effective as of the end of the period covered by this Quarterly Report on Form 10-Q.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no changes that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The information below should be read in conjunction with the information included in note 11 to our condensed consolidated financial statements.

RAL Litigation We have been named as a defendant in numerous lawsuits throughout the country regarding our refund anticipation loan programs (collectively, “RAL Cases”). The RAL Cases have involved a variety of legal theories asserted by plaintiffs. These theories include allegations that, among other things: disclosures in the RAL applications were inadequate, misleading and untimely; the RAL interest rates were usurious and unconscionable; we did not disclose that we would receive part of the finance charges paid by the customer for such loans; untrue, misleading or deceptive statements in marketing RALs; breach of state laws on credit service organizations; breach of contract, unjust enrichment, unfair and deceptive acts or practices; violations of the federal Racketeer Influenced and Corrupt Organizations Act; violations of the federal Fair Debt Collection Practices Act and unfair competition regarding debt collection activities; and that we owe, and breached, a fiduciary duty to our customers in connection with the RAL program.

The amounts claimed in the RAL Cases have been very substantial in some instances, with one settlement resulting in a pretax expense of \$43.5 million in fiscal year 2003 (the “Texas RAL Settlement”) and other settlements resulting in a combined pretax expense in fiscal year 2006 of \$70.2 million.

We believe we have meritorious defenses to the remaining RAL Cases and we intend to defend them vigorously. There can be no assurances, however, as to the outcome of the pending RAL Cases individually or in the aggregate or regarding the impact of the RAL Cases on our financial statements. We are unable to determine an estimate of the possible loss or range of loss, if any, in light of the current status of the pending RAL Cases. There were no significant developments regarding the RAL Cases during the three months ended October 31, 2008.

Peace of Mind Litigation We are defendants in lawsuits regarding our Peace of Mind program (collectively, the “POM Cases”), under which our applicable tax return preparation subsidiary assumes liability for additional tax assessments attributable to tax return preparation error. The POM Cases are described below.

Lorie J. Marshall, et al. v. H&R Block Tax Services, Inc., et al., Case No. 08-CV-591 in the U.S. District Court for the Southern District of Illinois, is a class action case originally filed in the Circuit Court of Madison County, Illinois on January 18, 2002, in which class certification was granted on August 27, 2003. The plaintiffs allege that the sale of POM guarantees constitutes (1) statutory fraud by selling insurance without a license, (2) an unfair trade practice, by omission and by “cramming” (i.e., charging customers for the guarantee even though they did not request it or want it), and (3) a breach of fiduciary duty. In August 2003, the court certified the plaintiff classes consisting of all persons who from January 1, 1997 to final judgment (1) were charged a separate fee for POM by “H&R Block” or a defendant H&R Block class member; (2) reside in certain class states and were charged a separate fee for POM by “H&R Block” or a defendant H&R Block class member not licensed to sell insurance; or (3) had an unsolicited charge for POM posted to their bills by “H&R Block” or a defendant H&R Block class member. Persons who received the POM guarantee through an H&R Block Premium office and persons who reside in Alabama and Texas were excluded from the plaintiff class. The court also certified a defendant class consisting of any entity with names that include “H&R Block” or “HRB,” or are otherwise affiliated or associated with H&R Block Tax Services, Inc., and that sold or sells the POM product. On August 5, 2008, the court decertified the defendant class and reduced the geographic scope of the plaintiff classes from 48 states to 13 states. On August 19, 2008, we removed the case from state court in Madison County, Illinois to the U.S. District Court for the Southern District of Illinois. The plaintiff’s motion to remand the case back to state court is pending.

There is one other putative class action pending against us in Texas that involves the POM guarantee. This case is pending before the same judge that presided over the Texas RAL Settlement, involves the same plaintiffs’ attorneys that are involved in the Marshall litigation in Illinois, and contains allegations similar to those in the Marshall case. No class has been certified in this case.

We believe the claims in the POM Cases are without merit, and we intend to defend them vigorously. The amounts claimed in the POM Cases are substantial, however, and there can be no assurances as to the outcome

of these pending actions individually or in the aggregate. We are unable to determine an estimate of the possible loss or range of loss, if any, in light of the early stages of the POM Cases.

Electronic Filing Litigation We are a defendant in a class action filed on August 30, 2002 and entitled *Erin M. McNulty and Brian J. Erzar v. H&R Block, Inc., et al.*, Case No. 02-CIV-4654 in the Court of Common Pleas of Lackawanna County, Pennsylvania, in which the plaintiffs allege that the defendants deceptively portray electronic filing fees as a necessary and required component of standard tax preparation services and do not inform tax preparation clients that they may (1) file tax returns free of charge by mailing the returns, (2) electronically file tax returns from personal computers either free of charge or at significantly lower fees and (3) be eligible to electronically file tax returns free of charge via telephone. The plaintiffs seek unspecified damages and disgorgement of all electronic filing, tax preparation and related fees collected during the applicable class period. An agreement to settle this case for an amount not to exceed \$2.5 million was approved by the court on September 22, 2008, and the impact of the settlement is included in our consolidated results of operations for the six months ended October 31, 2008.

Express IRA Litigation On March 15, 2006, the New York Attorney General filed a lawsuit in the Supreme Court of the State of New York, County of New York (Index No. 06/401110) entitled *The People of New York v. H&R Block, Inc. and H&R Block Financial Advisors, Inc. et al.* The complaint alleged fraudulent business practices, deceptive acts and practices, common law fraud and breach of fiduciary duty with respect to the Express IRA product and sought equitable relief, disgorgement of profits, damages and restitution, civil penalties and punitive damages. On July 12, 2007, the Supreme Court of the State of New York issued a ruling that dismissed all defendants other than HRBFA and the claims of common law fraud. Both the New York Attorney General and HRBFA have appealed the adverse portions of the trial court's ruling. We believe the claims in this case are without merit, and we intend to defend this case vigorously, but there are no assurances as to its outcome.

On January 2, 2008, the Mississippi Attorney General filed a lawsuit in the Chancery Court of Hinds County, Mississippi First Judicial District (Case No. G 2008 6 S 2) entitled *Jim Hood, Attorney for the State of Mississippi v. H&R Block, Inc., et al.* The complaint alleged fraudulent business practices, deceptive acts and practices, common law fraud and breach of fiduciary duty with respect to the Express IRA product and sought equitable relief, disgorgement of profits, damages and restitution, civil penalties and punitive damages. The defendants have filed a motion to dismiss. We believe the claims in this case are without merit, and we intend to defend this case vigorously, but there are no assurances as to its outcome.

In addition to the New York and Mississippi Attorney General actions, a number of civil actions were filed against HRBFA and us concerning the Express IRA product, the first of which was filed on March 17, 2006. Except for two cases pending in state court, all of the civil actions have been consolidated by the panel for Multi-District Litigation into a single action styled *In re H&R Block, Inc. Express IRA Marketing Litigation* in the United States District Court for the Western District of Missouri. Although we sold HRBFA effective November 1, 2008, we remain responsible for the Express IRA litigation through an indemnification agreement with Ameriprise. The amounts claimed in these cases are substantial. We believe the claims in these cases are without merit, and we intend to defend these cases vigorously, but there are no assurances as to their outcome.

We are unable to determine an estimate of the possible loss or range of loss, if any, of the Express IRA litigation at this time.

Securities Litigation On April 6, 2007, a putative class action styled *In re H&R Block Securities Litigation* was filed against the Company and certain of its officers in the United States District Court for the Western District of Missouri. The complaint alleged, among other things, deceptive, material and misleading financial statements, failure to prepare financial statements in accordance with generally accepted accounting principles and concealment of the potential for lawsuits stemming from the allegedly fraudulent nature of the Company's operations. The complaint sought unspecified damages and equitable relief. On October 5, 2007, the court dismissed the complaint and granted the plaintiffs leave to re-file the portion of the complaint pertaining to the Company's financial statements. On November 19, 2007, the plaintiffs re-filed the complaint, alleging, among other things, deceptive, material and misleading financial statements and failure to prepare financial statements in accordance with generally accepted accounting principles. The court dismissed the re-filed complaint on February 19, 2008. On March 11, 2008, the plaintiffs appealed the dismissal. In addition, plaintiffs in a shareholder derivative action that was consolidated into the securities litigation filed a separate appeal on March 18, 2008, contending that the derivative action was improperly consolidated. The derivative

action is *Iron Workers Local 16 Pension Fund v. H&R Block, et al.*, in the United States District Court for the Western District of Missouri, Case No. 06-cv-00466-ODS (instituted on June 8, 2006) and was brought against certain of our directors and officers purportedly on behalf of the Company. The derivative action alleges breach of fiduciary duty, abuse of control, gross mismanagement, waste, and unjust enrichment pertaining to (1) our restatement of financial results in fiscal year 2006 due to errors in determining our state effective income tax rate and (2) certain of our products and business activities. We believe the claims in these cases are without merit and intend to defend this litigation vigorously. We currently do not believe that we will incur a material loss with respect to this litigation.

RSM McGladrey Litigation RSM McGladrey Business Services, Inc. and certain of its subsidiaries are parties to a putative class action filed on July 11, 2006 and entitled *Do Right's Plant Growers, et al. v. RSM EquiCo, Inc., et al.* Case No. 06 CC00137, in the California Superior Court, Orange County. The complaint contains allegations regarding business valuation services provided by RSM EquiCo, Inc., including fraud, negligent misrepresentation, breach of contract, breach of implied covenant of good faith and fair dealing, breach of fiduciary duty and unfair competition and seeks unspecified damages, restitution and equitable relief. We intend to defend this case vigorously. The amount claimed in this action is substantial and there can be no assurance regarding the outcome and resolution of this matter. It is reasonably possible that we could incur losses with respect to this litigation, although an estimate of such losses cannot be made in light of the early stage of the litigation.

RSM McGladrey, Inc. (RSM) has a relationship with certain public accounting firms (collectively, "the Attest Firms") pursuant to which (1) some RSM employees are also partners or employees of the Attest Firms, (2) many clients of the Attest Firms are also RSM clients, and (3) our RSM McGladrey brand is closely linked to the Attest Firms. The Attest Firms are parties to claims and lawsuits (collectively, "Attest Firm Claims"). Judgments or settlements arising from Attest Firm Claims, which exceed the Attest Firms' insurance coverage, could have a direct adverse effect on Attest Firm operations, and could impair RSM's ability to attract and retain clients and quality professionals. Accordingly, although RSM may not have a direct liability for significant Attest Firm Claims, such Attest Firm Claims could have a material adverse effect on RSM's operations and impair the value of our investment in RSM. There is no assurance regarding the outcome of the Attest Firm Claims.

Litigation and Claims Pertaining to Discontinued Mortgage Operations Although mortgage loan origination activities were terminated and the loan servicing business was sold during fiscal year 2008, SCC remains subject to investigations, claims and lawsuits pertaining to its loan origination and servicing activities that occurred prior to such termination and sale. These investigations, claims and lawsuits include actions by state attorneys general, other state regulators, municipalities, individual plaintiffs, and cases in which plaintiffs seek to represent a class of others alleged to be similarly situated. Among other things, these investigations, claims and lawsuits allege discriminatory or unfair and deceptive loan origination and servicing practices, public nuisance, fraud, and violations of the Truth in Lending Act, Equal Credit Opportunity Act and the Fair Housing Act. In the current non-prime mortgage environment, the number of these investigations, claims and lawsuits has increased over historical experience and is likely to continue at increased levels. The amounts claimed in these investigations, claims and lawsuits are substantial in some instances, and the ultimate resulting liability is difficult to predict. In the event of unfavorable outcomes, the amounts SCC may be required to pay in the discharge of liabilities or settlements could be substantial and, because SCC's operating results are included in our consolidated financial statements, could have a material adverse impact on our consolidated results of operations.

On June 3, 2008, the Massachusetts Attorney General filed a lawsuit in the Superior Court of Suffolk County, Massachusetts (Case No. 08-2474-BLS) entitled *Commonwealth of Massachusetts v. H&R Block, Inc., et al.*, alleging unfair, deceptive and discriminatory origination and servicing of mortgage loans and seeking equitable relief, disgorgement of profits, restitution and statutory penalties. On November 10, 2008, the court granted a preliminary injunction limiting the ability of the owner of SCC's former loan servicing business to initiate or advance foreclosure actions against certain loans originated by SCC or its subsidiaries without (i) advance notice to the Massachusetts Attorney General and (ii) if the Attorney General objects to foreclosure, approval by the court. The preliminary injunction generally applies to loans meeting all of the following four characteristics: (1) adjustable rate mortgages with an introductory period of three years or less, (2) the borrower has a debt-to-income ratio generally exceeding 50 percent, (3) an introductory interest rate at least 2 percent

lower than the fully indexed rate (unless the debt-to-income ratio is 55% or greater) and (4) loan-to-value ratio of 97 percent or certain prepayment penalties. We have appealed this preliminary injunction. We believe the claims in this case are without merit, and we intend to defend this case vigorously, but there are no assurances as to its outcome. We are unable to determine an estimate of the possible loss or range of loss, if any, in light of the early stages of this litigation.

SCC also remains subject to potential claims for indemnification and loan repurchases pertaining to loans previously sold. In the current non-prime mortgage environment, it is likely that the frequency of repurchase and indemnification claims may increase over historical experience and give rise to additional litigation. In some instances, H&R Block, Inc. was required to guarantee SCC's obligations. The amounts involved in these potential claims may be substantial, and the ultimate resulting liability is difficult to predict. In the event of unfavorable outcomes, the amounts SCC may be required to pay in the discharge or settlement of these claims could be substantial and, because SCC's operating results are included in our consolidated financial statements, could have a material adverse impact on our consolidated results of operations.

Other Claims and Litigation We are from time to time party to investigations, claims and lawsuits not discussed herein arising out of our business operations. These investigations, claims and lawsuits include actions by state attorneys general, other state regulators, individual plaintiffs, and cases in which plaintiffs seek to represent a class of others similarly situated. Some of these investigations, claims and lawsuits pertain to RALs, the electronic filing of customers' income tax returns, the POM guarantee program, wage and hour claims and investment products. We believe we have meritorious defenses to each of these claims, and we are defending or intend to defend them vigorously. The amounts claimed in these claims and lawsuits are substantial in some instances, however the ultimate liability with respect to such litigation and claims is difficult to predict. In the event of an unfavorable outcome, the amounts we may be required to pay in the discharge of liabilities or settlements could be material.

In addition to the aforementioned types of cases, we are party to claims and lawsuits that we consider to be ordinary, routine litigation incidental to our business, including claims and lawsuits (collectively, "Other Claims") concerning investment products, the preparation of customers' income tax returns, the fees charged customers for various products and services, losses incurred by customers with respect to their investment accounts, relationships with franchisees, intellectual property disputes, employment matters and contract disputes. While we cannot provide assurance that we will ultimately prevail in each instance, we believe the amount, if any, we are required to pay in the discharge of liabilities or settlements in these Other Claims will not have a material adverse effect on our consolidated operating results, financial position or cash flows.

ITEM 1A. RISK FACTORS

Our businesses may be adversely affected by conditions in the global financial markets and economic conditions generally.

Our business may be materially affected by conditions in the global financial markets and economic conditions generally, and these conditions may change suddenly and dramatically. For example, the capital and credit markets have been experiencing extreme volatility and disruption, which have reached unprecedented levels in recent months. Difficulties in the mortgage and broader credit markets in the United States and elsewhere resulted in a relatively sudden and substantial decrease in the availability of credit and a corresponding increase in funding costs. These conditions have persisted during 2008 and we cannot predict how long these conditions will exist or how our business or financial statements may be affected. Limitations on the availability of credit, such as has occurred recently, may affect our ability to borrow in excess of our current commitments on a secured or unsecured basis, which may adversely affect our liquidity and results of operations. This could increase our cost of funding, which could reduce our profitability.

In addition, the recent downturn in the residential housing market and increase in mortgage defaults has, and may continue, to negatively impact our operating results. An economic recession will likely reduce the ability of our borrowers to repay mortgage loans, and declining home values would increase the severity of loss we may incur in the event of default. In addition to mortgage loans, we also extend secured and unsecured credit to other customers, including refund anticipation loans and Emerald Advance lines of credit to our tax preparation customers. We may incur significant losses on credit we extend, which in turn could reduce our profitability.

Other than the item discussed above, there have been no material changes in our risk factors from those reported at April 30, 2008 in our Annual Report on Form 10-K.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

A summary of our purchases of H&R Block common stock during the second quarter of fiscal year 2009 is as follows:

(in 000s, except per share amounts)

	Total Number of Shares Purchased(1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(2)	Maximum \$ Value of Shares that May Be Purchased Under the Plans or Programs(2)
August 1 – August 31	10	\$ 24.56	-	\$ 2,000,000
September 1 – September 30	3	\$ 25.36	-	\$ 2,000,000
October 1 – October 31	1	\$ 19.88	-	\$ 2,000,000

(1) We purchased 14,365 shares in connection with the funding of employee income tax withholding obligations arising upon the exercise of stock options or the lapse of restrictions on nonvested shares.

(2) In June 2008, our Board of Directors rescinded previous authorizations to repurchase shares of our common stock, and approved an authorization to purchase up to \$2.0 billion of our common stock over the next four years.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Our annual meeting of shareholders was held on September 4, 2008, at which time our directors were elected to serve until the 2009 annual meeting, and the proposals set forth below were submitted to a vote of shareholders. The number of votes cast for, against or withheld, the number of abstentions, and the number of no votes, if applicable, for each proposal was as follows:

Approval of an Amendment to the Company's Restated Articles of Incorporation to Require an Independent Chairman of the Board of Directors

Votes For	277,970,181
Votes Against	4,090,530
Abstain	2,848,593

Approval of an Amendment to the Company's Restated Articles of Incorporation to Decrease the Permissible Number of Directors

Votes For	280,473,181
Votes Against	1,520,092
Abstain	2,916,602

Approval of an Amendment to the Company's Restated Articles of Incorporation to Impose Director Term Limits

Votes For	198,950,440
Votes Against	82,001,691
Abstain	3,957,744

Approval of an Amendment to the Company's Restated Articles of Incorporation to Limit Voting Rights of Preferred Stock

Votes For	255,392,828
Votes Against	1,628,675
Abstain	2,966,718

[Table of Contents](#)

Approval of an Advisory Proposal on the Company's Executive Pay-for-Performance Compensation Policies and Procedures

Votes For	255,215,990
Votes Against	2,683,216
Abstain	27,010,669

Approval of the 2008 Deferred Stock Unit Plan for Outside Directors to replace the 1989 Stock Option Plan for Outside Directors

Votes For	232,444,901
Votes Against	24,457,615
Abstain	3,085,705

Ratification of the Appointment of Deloitte & Touche LLP as our Independent Accountants for the Fiscal Year Ended April 30, 2009

Votes For	281,260,703
Votes Against	783,550
Abstain	2,865,622

ITEM 6. EXHIBITS

- 3.1 Amended and Restated Articles of Incorporation of H&R Block, Inc., as amended as of October 15, 2008.
- 3.2 Amended and Restated Bylaws of H&R Block, Inc., as amended through October 15, 2008.
- 10.1 H&R Block Severance Plan, as amended through September 4, 2008.
- 31.1 Certification by Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification by Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification by Chief Executive Officer furnished pursuant to 18 U.S.C. 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification by Chief Financial Officer furnished pursuant to 18 U.S.C. 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

H&R BLOCK, INC.

/s/ Russell P. Smyth

Russell P. Smyth
President and Chief Executive Officer
December 8, 2008

/s/ Becky S. Shulman

Becky S. Shulman
Senior Vice President, Treasurer and
Chief Financial Officer
December 8, 2008

/s/ Jeffrey T. Brown

Jeffrey T. Brown
Vice President and
Corporate Controller
December 8, 2008

Amended and Restated
Articles of Incorporation
of
H & R Block, Inc.

The undersigned, being an officer of H & R Block, Inc., does hereby certify that the following Amended and Restated Articles of Incorporation have been approved by the corporation in accordance with Section 351.106 of the General and Business Corporation Law of Missouri. The undersigned hereby further certifies that the following Amended and Restated Articles of Incorporation correctly set forth without change the corresponding provisions of the Articles of Incorporation as heretofore amended, and that the following Amended and Restated Articles of Incorporation supersede the original Articles of Incorporation and all amendments thereto.

ARTICLE ONE

The name of the corporation is: H & R BLOCK, INC.

ARTICLE TWO

The address of the corporation's registered office in the State of Missouri is 120 South Central Avenue, Clayton, Missouri 63105, and the name of its registered agent at such address is CT Corporation System.

ARTICLE THREE

The aggregate number of shares of all classes of stock which the corporation shall have authority to issue is 806,000,000 divided into two classes as follows:

- (i) 800,000,000 shares of a class designated Common Stock, without par value; and
- (ii) 6,000,000 shares of a class designated Preferred Stock, without par value.

The voting powers, designations, preferences, qualifications, limitations, restrictions and special or relative rights in respect of each class of stock are or shall be fixed as follows:

(1) Preferred Stock. The Board of Directors is expressly authorized to issue the Preferred Stock from time to time, in one or more series, provided that the aggregate number of shares issued and outstanding at any time of all such series shall not exceed 6,000,000. The Board of Directors is further authorized to fix or alter, in respect of each such series, the following terms and provisions of any authorized and unissued shares of such stock:

- (a) The distinctive serial designation;
- (b) The number of shares of the series, which number may at any time or from time to time be increased or decreased (but not below the number of shares of such series then outstanding) by the Board of Directors;
- (c) The voting powers and, if voting powers are granted, the extent of such voting powers including the right, if any, to elect a director or directors, provided, that the holders of shares of Preferred Stock will not be entitled (A) to more than one vote per share, when voting as a class with the holders of shares of common stock, and (B) to vote on any matter separately as a class, except with respect to any amendment or alteration of the provisions of these Articles of Incorporation that would adversely affect the powers, preferences or special rights of the applicable series of Preferred Stock or as otherwise provided by law;
- (d) The election, term of office, filling of vacancies and other terms of the directorships of directors elected by the holders of any one or more classes or series of such stock;
- (e) The dividend rights, including the dividend rate and the dates on which any dividends shall be payable;
- (f) The date from which dividends on shares issued prior to the date for payment of the first dividend thereon shall be cumulative, if any;
- (g) The redemption price, terms of redemption, and the amount of and provisions regarding any sinking fund for the purchase or redemption thereof;
- (h) The liquidation preferences and the amounts payable on dissolution or liquidation;
- (i) The terms and conditions, if any, under which shares of the series may be converted; and
- (j) Any other terms or provisions which the Board of Directors is by law authorized to fix or alter.

(2) Common Stock. The holders of shares of Common Stock shall be entitled (i) to vote on all matters at all meetings of the shareholders of the corporation on the basis of one vote for each share of Common Stock held of record; (ii) subject to any preferential dividend rights applicable to the Preferred Stock, to receive such dividends as may be declared by the Board of Directors; and (iii) in the event of the voluntary, or involuntary, liquidation or winding up of the corporation, after distribution in full of any preferential amounts to be distributed to holders of shares of Preferred Stock, to receive all of the remaining assets of the corporation available for distribution to its shareholders, ratably

in proportion to the aggregate number of their shares of Common Stock and Preferred Stock (if the holders of such Preferred Stock are entitled to share in such distribution).

(3) Provisions applicable to Common and Preferred Stock. No holder of shares of stock of the corporation of any class shall be entitled, as a matter of right, to purchase or subscribe for any shares of stock of the corporation, of any class, whether now or hereafter authorized. The Board of Directors shall have authority to fix the issue price of any and all shares of stock of the corporation of any class.

ARTICLE FOUR

The number of shares to be issued before the corporation shall commence business is: Twenty (20) shares of common stock, and the consideration to be paid therefor, and the capital with which the corporation will commence business, is: Two Thousand (\$2,000.00) Dollars. All of said shares have been first duly subscribed by the undersigned incorporators and have been paid up in lawful money of the United States.

ARTICLE FIVE

The names and places of residence of the initial subscribers and shareholders, and the number of shares of stock subscribed by each, are:

<u>Name</u>	<u>Residence</u>	<u>No. of Shares</u>
R. A. Bloch	6501 Overbrook, Kansas City, Mo.	10
Henry W. Bloch	2026 W. 63rd St., Kansas City, Mo.	9
L. E. Bloch, Jr.	414 W. 58th St., Kansas City, Mo.	1

ARTICLE SIX

(A) Number of Directors. The number of directors to constitute the Board of Directors shall be not less than seven nor more than twelve, the exact number to be fixed by a resolution adopted by the affirmative vote of a majority of the whole Board.

(B) Election of Directors. Directors shall be elected at each annual meeting of shareholders to hold office until the next succeeding annual meeting of shareholders or until such director's successor has been elected and qualified. The term of office of each director shall begin immediately after his election and each director shall hold office until the next succeeding annual meeting of shareholders or until such director's successor has been elected and qualified and subject to prior death, resignation, retirement or removal from office of the director. No decrease in the number of directors constituting the board of directors shall reduce the term of any incumbent director. No person shall serve as a director for a period or consecutive periods that extend beyond the twelfth annual shareholders meeting following the annual shareholders meeting at which such person was first elected to the Board of Directors by the shareholders.

(C) Vacancies. Newly created directorships resulting from an increase in the number of directors and any vacancies on the Board of Directors resulting from any cause shall be filled by a majority of the Board of Directors then in office, although less than a quorum, or by a sole remaining director. Any director elected to fill a vacancy not resulting from an increase in the number of directors shall have the same remaining term as his or her predecessor.

(D) Removal of Directors. The entire Board of Directors of the corporation may be removed at any time but only by the affirmative vote of the holders of 80% or more of the outstanding shares of each class of stock of the corporation entitled to elect one or more directors at a meeting of the shareholders called for such purpose.

(E) Bylaws. The Board of Directors shall have the power to make, alter, amend, change, add to or repeal the Bylaws of the corporation.

(F) Independent Chairman of the Board. No person may simultaneously hold the offices of chairman of the board and vice-chairman of the board, chairman of the board and chief executive officer, or chairman of the board and president. Furthermore, the chairman of the board shall be independent pursuant to standards promulgated by the Securities and Exchange Commission and the New York Stock Exchange and shall not have served previously as an executive officer of the Company.

ARTICLE SEVEN

The duration of the corporation is perpetual.

ARTICLE EIGHT

The purposes for which the corporation is formed are as follows:

(1) To perform bookkeeping services, including the preparation of books of account, balance sheets and profit and loss statements, to render tax services, including the preparation of tax returns, and to perform any and all other services directly or indirectly related thereto.

(2) To purchase, lease or otherwise acquire, hold, own, improve, develop, sell, mortgage, pledge and otherwise deal in and with real and personal property of every kind and description in the United States of America, and in any territory, colony, dependency or district thereof, and in any foreign country or countries to the extent that the same may be lawfully permissible.

(3) To buy, sell, utilize, lease, rent, import, export, manufacture, produce, design, prepare, assemble, fabricate, distribute and otherwise deal in, either at wholesale or retail, or both, either as principal, agent or on commission, all commodities, goods, wares, merchandise, machinery, tools, devices, apparatus, equipment and all other personal property, whether tangible or intangible, of every kind and description.

(4) To buy, purchase, manufacture, assemble, distribute, lease (either as lessor or lessee), acquire, sell or in any manner dispose of, import, export, use, operate, rent, hire, mortgage, furnish, grant the use of, repair and generally deal in all kinds of construction, building and engineering equipment, including, but not limited to, bulldozers, castings, cranes, compressors, concrete mixers, drag lines, dump wagons, earth moving machinery and equipment, plows, pumps, road machines, road rollers, scrapes, shovels, tractors, trucks and automobile equipment, and in general all kinds of machinery, appliances, devices, implements, tools, fixtures, instruments, supplies, materials, and property of every kind and description, usable or adaptable for use by contractors and civil engineers.

(5) To apply for, obtain, purchase, lease, take licenses in respect of or otherwise acquire, and to hold, own, use, operate, enjoy, turn to account, grant licenses in respect of, manufacture under, introduce, sell, assign, mortgage, pledge or otherwise dispose of:

- a) Any and all inventions, devices and processes and any improvements and modifications thereof;
- b) Any and all letters patent of the United States or of any other country, state or locality, and all rights connected therewith or appertaining thereto;
- c) Any and all copyrights granted by the United States or any other country, state or locality as aforesaid;
- d) Any and all trade-marks, trade names, trade symbols and other indications of origin and ownership granted by or recognized under the laws of the United States or of any other country, state or locality as aforesaid; and to conduct and carry on its business in any or all of its various branches under any trade name or trade names.

(6) To engage in, carry on and conduct research, experiments, investigations, analyses, studies and laboratory work, for the purpose of discovering new products or to improve products, articles and things and to acquire, own, operate, maintain and dispose of, whenever the corporation deems such action desirable, laboratories and similar facilities, plants and any and all other establishments, and to procure, own and hold all necessary equipment in respect thereof, for the purposes aforesaid.

(7) To enter into any lawful contract or contracts with persons, firms, corporations or other entities, governments or any agencies or subdivisions thereof, including guaranteeing the obligations of any person, firm, or corporation or other entity.

(8) To purchase and acquire, as a going concern or otherwise, and to carry on, maintain and operate all or any part of the property or business of any corporation, firm, association, entity, syndicate, or person whatsoever, deemed to be of benefit to the corporation, or of use in any manner in connection with any of its objects or purposes;

and to acquire, own, hold and use and dispose of, upon such terms as may seem advisable to the corporation, any and all property, real, personal or mixed, and any interest therein deemed necessary, useful or of benefit to the corporation in any manner in connection with any of its objects or purposes.

(9) To purchase or otherwise acquire, hold, sell, pledge, reissue, transfer or otherwise deal in shares of the corporation's own stock, provided that it shall not use its funds or property for the purchase of its own shares of stock when such use would be in any manner prohibited by law, by the articles of incorporation or by the bylaws of the corporation; and, provided further, that shares of its own stock belonging to it shall not be voted upon directly or indirectly.

(10) To invest, lend and deal with moneys of the corporation in any lawful manner, and to acquire by purchase, by the exchange of stock or other securities of the corporation, by subscription or otherwise and to invest in, to hold for investment or for any other purpose, and to deal in and use, sell, pledge, or otherwise dispose of, and in general to deal in any interest concerning or enter into any transaction with respect to (including "long" and "short" sales of) any stocks, bonds, notes, debentures, certificates, receipts and other securities and obligations of any government, state, municipality, corporation, association or other entity, including individuals and partnerships and, while owner thereof, to exercise all of the rights, powers and privileges of ownership, including, among other things, the right to vote thereon for any and all purposes and to give consent with respect thereto.

(11) To borrow or raise money for any purpose of the corporation and to secure the same and the interest accruing on any such loan, indebtedness or obligation of the corporation, and for that or any other purposes to mortgage, pledge, hypothecate or charge all or any part of the present or hereafter acquired property, rights and franchises of the corporation, real, personal, mixed or of any character whatever, subject only to limitations specifically imposed by law.

(12) To do any or all of the things hereinabove enumerated alone for its own account, or for the account of others, or as the agent for others, or in association with others or by or through others, and to enter into all lawful contracts and undertakings in respect thereof.

(13) To have one or more offices, to conduct its business, carry on its operations and promote its objects within and without the State of Missouri, in other states, the District of Columbia, the territories, colonies and dependencies of the United States and in foreign countries, without restriction as to place, manner or amount, but subject to the laws of such state, district, territory, colony, dependency or country; and to do any or all of the things herein set forth to the same extent as natural persons might or could do and in any part of the world, either alone or in company with others.

(14) In general, to carry on any other business in connection with each and all of the foregoing or incidental thereto, and to carry on, transact and engage in any and every

lawful business or other lawful thing calculated to be of gain, profit or benefit to the corporation as fully and freely as a natural person might do, to the extent and in the manner, anywhere within or without the State of Missouri, as it may from time to time determine; and to have and exercise each and all of the powers and privileges, either direct or incidental, which are given and provided by or are available under the laws of the State of Missouri in respect of private corporations organized for profit thereunder; provided, however, that the corporation shall not engage in any activity for which a corporation may not be formed under the laws of the State of Missouri.

It is the intention that each of the objects, purposes and powers specified in each of the paragraphs in this Article Eight shall be in no wise limited or restricted by reference to or inference from the terms of any other paragraph, but that the objects, purposes and powers specified in each of the paragraphs of this Article Eight shall be regarded as independent objects, purposes and powers. The enumeration of the specific objects, purposes and powers of this Article shall not be construed to restrict in any manner the general objects, purposes and powers of this corporation, nor shall the expression of one thing be deemed to exclude another, although it be of like nature. The enumeration of objects, purposes or powers herein shall not be deemed to exclude or in any way limit by inference any objects, purposes or powers which this corporation has power to exercise, whether expressly or by force of the laws of the State of Missouri, now or hereafter in effect, or impliedly by any reasonable construction of such laws.

ARTICLE NINE

The private property of the shareholders shall not be subject to the payment of the corporate debt of the corporation.

ARTICLE TEN

Both the shareholders and directors shall have power, if the Bylaws so provide, to hold their meetings and to have one or more offices within or without the State of Missouri, and to keep books and records of the corporation business (subject to the provisions of the applicable laws of Missouri) outside of the State of Missouri, at such places as may be from time to time designated by the Board of Directors.

ARTICLE ELEVEN

Any contract, transaction or act of the corporation or of the directors, which shall be ratified by a majority of a quorum of the shareholders having voting power at any annual meeting, or at any special meeting called for such purpose, shall, except as otherwise specifically provided by law or by the Articles of Incorporation, be as valid and as binding as though ratified by every shareholder of the corporation; provided, however, that any failure of the shareholders to approve or ratify such contract, transaction or act, when and if submitted, shall not of itself be deemed in any way to render the same invalid, nor deprive the directors of their right to proceed with such contract, transaction or act.

ARTICLE TWELVE

In case the corporation enters into contracts or transacts business with one or more of its directors, or with any firm of which one or more of its directors are members, or with any other corporation or association of which one or more of its directors are members or shareholders, directors or officers, such transaction or transactions shall not be invalidated or in any way affected by the fact that such director or directors have or may have interests therein which are or might be adverse to the interests of this corporation; provided that such contract or transaction is entered into in good faith and authorized or ratified in the usual course of business as may be provided for in the Bylaws of this corporation.

ARTICLE THIRTEEN

The corporation reserves the right to amend, alter, change, or repeal any provision contained in these Articles of Incorporation, in the manner as hereafter prescribed by statute, and all rights conferred upon stockholders herein are granted subject to this reservation.

ARTICLE FOURTEEN

Special meetings of the shareholders for any lawful purpose or purposes may be called only by a majority of the Board of Directors, by the holders of not less than 80% of all outstanding shares of stock of the corporation entitled to vote at an annual meeting, by the Chairman of the Board or by the President.

ARTICLE FIFTEEN

The affirmative vote of not less than 80% of the outstanding shares of the corporation entitled to vote in an election of directors shall be required for the approval or authorization of any Business Transaction (as hereinafter defined) with a Related Person (as hereinafter defined), whether or not such Business Transaction was approved by a lesser vote prior to the time the Related Person became a Related Person, unless:

- (1) The Business Transaction shall have been approved by a two-thirds vote of the Continuing Directors (as hereinafter defined); or
- (2) The Business Transaction is a merger or consolidation and the cash or fair market value of the property, securities or other consideration to be received per share by the holders of each class of stock of the corporation in the Business Transaction is not less than such Related Person's Highest Purchase Price (as hereinafter defined).

For purposes of this Article Fifteen:

1. The term “Business Transaction” shall mean: (a) any merger or consolidation of the corporation or any subsidiary of the corporation; (b) any sale, lease, exchange, mortgage, pledge, transfer or other disposition (in one transaction or a series of transactions) of all or a Substantial Part (as hereinafter defined) of the assets of the corporation or any subsidiary; (c) the issuance, sale, exchange, transfer or other disposition by the corporation or any subsidiary of any securities of the corporation or any subsidiary; (d) any reclassification of securities (including any reverse stock split) or recapitalization of the corporation or any other transaction which has the effect, directly or indirectly, of increasing the voting power of a Related Person; (e) any liquidation, spinoff, split-up or dissolution of the corporation; and (f) any agreement, contract or other arrangement providing for any of the transactions described in this definition of Business Transaction.
2. The term “Related Person” shall mean and include any individual, corporation, partnership or other person or entity, other than the corporation or any wholly-owned subsidiary thereof, which, together with its “Affiliates” and “Associates” (as defined on June 1, 1983 in Rule 12b-2 under the Securities Exchange Act of 1934 (the “Exchange Act”), “Beneficially Owns” (as defined on June 1, 1983, in Rule 13d-3 under the Exchange Act) in the aggregate 15 percent or more of the outstanding shares of the corporation entitled to vote in an election of directors at the time a resolution approving the Business Transaction is adopted by a two-thirds vote of the corporation’s Board of Directors or on the record date for the determination of shareholders entitled to notice of and to vote on the Business Transaction, and any Affiliate or Associate of any such individual, corporation, partnership or other person or entity.
3. The term “Continuing Director” shall mean any member of the Board of Directors of the corporation who was either a member of the Board of Directors prior to the time that the Related Person became a Related Person or who subsequently became a director of the corporation and whose election, or nomination for election by the corporation’s shareholders, was approved by a vote of a majority of the Continuing Directors.
4. The term “Highest Purchase Price” shall mean the highest amount of consideration paid by such Related Person for a share of the corporation’s Common Stock within one year prior to the date such person became a Related Person or in the transaction that resulted in such Related Person becoming a Related Person, provided that the Highest Purchase Price shall be appropriately adjusted for stock splits, stock dividends and like distributions.

5. The term "Substantial Part" shall mean more than 20% of the fair market value of the total assets of the entity in question, as of the end of its most recent fiscal year ending prior to the time the determination is made.

ARTICLE SIXTEEN

The affirmative vote of the holders of not less than 80% of the outstanding shares of stock of this corporation entitled to vote generally in the election of directors shall be required to amend, modify, alter or repeal Articles Three, Six, Fourteen, Fifteen and Sixteen of these Articles of Incorporation or any provision of the corporation's Bylaws, provided that the affirmative vote of a majority of the votes entitled to be cast shall be sufficient to approve any such amendment, modification, alternation or repeal that has been adopted by a vote of 80% of the members of the Board of Directors and that the power of the Board of Directors to amend, modify, alter or repeal any Bylaw shall be governed by Section E of Article Six.

IN WITNESS WHEREOF, the undersigned has caused these Amended and Restated Articles of Incorporation to be executed this _____ day of October, 2008.

H&R BLOCK, INC.

/s/ Bret G. Wilson

Bret G. Wilson

Vice President and Secretary

H&R BLOCK, INC

BOARD MINUTES — OCTOBER 14 AND 15, 2008

AMENDED AND RESTATED
BYLAWS
OF
H & R BLOCK, INC.
(As amended through October 15, 2008)

OFFICES

1. OFFICES. The corporation shall maintain a registered office in the State of Missouri, and shall have a resident agent in charge thereof. The location of the registered office and name of the resident agent shall be designated in the Articles of Incorporation, or by resolution of the board of directors, on file in the appropriate offices of the State of Missouri. The corporation may maintain offices at such other places within or without the State of Missouri as the board of directors shall designate.

SEAL

2. SEAL. The corporation shall have a corporate seal inscribed with the name of the corporation and the words "Corporate Seal — Missouri". The form of the seal may be altered at pleasure and shall be used by causing it or a facsimile thereof to be impressed, affixed, reproduced or otherwise used.

SHAREHOLDERS' MEETINGS

3. PLACE OF MEETINGS. All meetings of the shareholders shall be held at the principal office of the corporation in Missouri, except such meetings as the board of directors (to the extent permissible by law) expressly determines shall be held elsewhere, in which case such meetings may be held at such other place or places, within or without the State of Missouri, as the board of directors shall have determined.

4. ANNUAL MEETING. (a) Date And Time. The annual meeting of shareholders shall be held on the first Wednesday in September of each year, if not a legal holiday, and if a legal holiday, then on the first business day following, at 9:00 a.m., or on such other date as the board of directors may specify, when directors shall be elected and such other business transacted as may be properly brought before the meeting.

(b) Business Conducted. At an annual meeting of shareholders, only such business shall be conducted as shall have been properly brought before the meeting. To be properly brought before an annual meeting, business must be (i) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the board, (ii) otherwise properly brought before the meeting by or at the direction of the board, or (iii) otherwise properly brought before the meeting by a shareholder who was a shareholder of record both at the time of giving of notice provided for in this section 4(b)

and at the time of the meeting, who is entitled to vote at the meeting and who has complied with the notice and other requirements of this section 4(b).

For business to be properly brought before an annual meeting by a shareholder, the shareholder must have given timely notice of the business in writing to the secretary of the corporation and such business must be a proper subject for action by the corporation's shareholders under applicable law.

To be timely, a shareholder's notice must be received by the secretary at the principal executive offices of the corporation at least 45 days before the date in the year of the annual meeting corresponding to the date on which the corporation first mailed its proxy statements for the prior year's annual meeting of shareholders. Such notice shall set forth as to each matter the shareholder proposes to bring before the meeting

- (i) a brief description of the business desired to be brought before the annual meeting;
- (ii) the text of the proposal or business (including any proposed resolutions) and, if such business includes (to the extent, if any, permitted) a proposal to amend the Articles of Incorporation or the Bylaws, the language of the proposed amendment;
- (iii) the reasons for conducting such business at the annual meeting;
- (iv) any material interest of such shareholder (and of the beneficial owner, if any, on whose behalf the proposal is made) in such business; and
- (v) as to the shareholder giving the notice and the beneficial owner, if any, on whose behalf the proposal is made (A) the name and address of the shareholder and beneficial owner, as they appear on the corporation's books, (B) the class and number of shares of stock of the corporation that are owned beneficially and of record by such shareholder and beneficial owner, (C) any other information with respect to such matter as would have been required to be included in a proxy statement filed pursuant to Regulation 14A under the Exchange Act then in effect, had proxies been solicited by the board of directors with respect thereto, (D) whether the shareholder or beneficial owner, if any, intends, or is part of a group that intends to deliver a proxy statement and/or form of proxy to holders of at least the percentage of the corporation's outstanding capital stock required to approve or adopt the proposal or otherwise solicit proxies from shareholders in support of such proposal, and (E) a representation that the shareholder (or a qualified representative of the shareholder) intends to appear in person at the meeting to propose such business.

Only such business shall be conducted at the annual meeting as has been brought before the meeting in accordance with the procedures set forth in this section 4(b). The chairman of an annual meeting shall determine whether any proposal to bring business before the meeting was made in accordance with the provisions of this section 4(b) and is a proper subject for shareholder action pursuant to this section 4(b) and applicable law, and if proposed business is not in compliance with this section 4(b)

or not a proper subject for shareholder action, to declare that such defective proposal be disregarded and not transacted. The chairman of the annual meeting shall have sole authority to decide questions of compliance with the foregoing procedures, and his or her ruling shall be final. This provision shall not prevent the consideration and approval or disapproval at the meeting of reports of officers, directors and committees of the Board of Directors; provided that no new business shall be acted upon at the meeting in connection with such reports unless stated, submitted and received as herein provided.

Notwithstanding anything to the contrary in this section 4(b), (i) if the shareholder (or a qualified representative of the shareholder) does not appear at the meeting of shareholders to propose such business, such business shall not be transacted (notwithstanding that proxies in respect of such vote may have been received by the corporation), and (ii) a shareholder shall also comply with state law and the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this section 4(b). Nothing in this section 4(b) shall be deemed to affect any rights of shareholders to request inclusion of proposals in, or the corporation's right to omit proposals from, the corporation's proxy statement and form of proxy pursuant to Rule 14a-8 under the Exchange Act or any successor provision. The provisions of this Section 4(b) shall also govern what constitutes timely notice for purposes of Rule 14a4(c) (and any successor provision) under the Exchange Act.

(c) Say on Pay Resolution. It shall be the practice of the Company to present at the annual meeting of shareholders a resolution calling for an advisory vote on overall executive compensation programs, including the linkage of overall pay to performance.

5. SPECIAL MEETINGS. Special meetings of the shareholders may be called at any time by the chairman of the board, by the chief executive officer or by the president, or at any time upon the written request of a majority of the board of directors, or upon the written request of the holders of not less than 80% of the stock of the corporation entitled to vote in an election of directors. Each call for a special meeting of the shareholders shall state the time, the day, the place and the purpose or purposes of such meeting and shall be in writing, signed by the persons making the same and delivered to the secretary. No business shall be transacted at a special meeting other than such as is included in the purposes stated in the call.

6. CONDUCT OF ANNUAL AND SPECIAL MEETINGS. The chairman of the board, or in his absence the chief executive officer or the president, shall preside as the chairman of the meeting at all meetings of the shareholders. The chairman of the meeting shall be vested with the power and authority to (i) maintain control of and conduct an orderly meeting; (ii) exclude any shareholder from the meeting for failing or refusing to comply with any of the procedural standards or rules or conduct or any reasonable request of the chairman; and (iii) appoint inspectors of elections, prescribing their duties, and administer any oath that may be required under Missouri law. The ruling of the presiding officer on any matter shall be final and exclusive. The presiding officer shall establish the order of business and such rules and procedures for conducting the meeting as in his or her sole and complete discretion he or she determines necessary, appropriate or convenient under the circumstances, including (without limitation) (i) an agenda or order of business for

the meeting, (ii) rules and procedures for maintaining order at the meeting and the safety of those present, (iii) limitations on participation in such meeting to shareholders of record of the corporation and their duly authorized and constituted proxies and such other persons as the presiding officer shall permit, (iv) restrictions on entry to the meeting after the time fixed for commencement thereof, (v) limitations on the time allotted to questions or comments by participants and (vi) regulation of the voting or balloting as applicable, including (without limitation) matters that are to be voted on by ballot, if any. Unless and to the extent determined by the Board of Directors or the presiding officer, meetings of shareholders shall not be required to be held in accordance with rules of parliamentary procedure.

7. NOTICES. Written or printed notice of each meeting of the shareholders, whether annual or special, stating the place, date and time thereof and in case of a special meeting, the purpose or purposes thereof shall be delivered or mailed to each shareholder entitled to vote thereat, not less than ten nor more than seventy days prior to the meeting, unless, as to a particular matter, other or further notice is required by law, in which case such other or further notice shall be given. Any notice of a shareholders' meeting sent by mail shall be deemed to be delivered when deposited in the United States mail with postage prepaid thereon, addressed to the shareholder at his address as it appears on the books of the corporation.

8. WAIVER OF NOTICE. Whenever any notice is required to be given under the provisions of these bylaws, the Articles of Incorporation of the corporation, or of any law, a waiver thereof, if not expressly prohibited by law, in writing signed by the person or persons entitled to such notice, shall be deemed the equivalent to the giving of such notice.

9. QUORUM. Except as otherwise may be provided by law, by the Articles of Incorporation of the corporation or by these bylaws, the holders of a majority of the shares issued and outstanding and entitled to vote thereat, present in person or by proxy, shall be required for and shall constitute a quorum at all meetings of the shareholders for the transaction of business. Every decision of a majority in amount of shares of such quorum shall be valid as a corporate act, except in those specific instances in which a larger vote is required by law or by the Articles of Incorporation. If a quorum be not present at any meeting, the shareholders entitled to vote thereat, present in person or by proxy, shall have power to adjourn the meeting to a specified date not longer than 90 days after such adjournment without notice other than announcement at the meeting, until the requisite amount of voting shares shall be present. At such adjourned meeting at which the requisite amount of voting shares shall be represented any business may be transacted which might have been transacted at the meeting as originally notified.

10. PROXIES. At any meeting of the shareholders, every shareholder having the right to vote shall be entitled to vote in person or by proxy appointed by an instrument in writing subscribed by such shareholder and bearing a date not more than eleven months prior to said meeting unless said instrument provides that it shall be valid for a longer period.

11. VOTING. Each shareholder shall have one vote for each share of stock having voting power registered in his name on the books of the corporation and except where the transfer books of the corporation shall have been closed or a date shall have been fixed as a record date for the determination of its shareholders entitled to vote, no share of stock shall be voted at any election for directors which shall have been transferred on the books of the corporation within seventy days preceding such election of directors.

Shareholders shall have no right to vote cumulatively for the election of directors.

A shareholder holding stock in a fiduciary capacity shall be entitled to vote the shares so held, and a shareholder whose stock is pledged shall be entitled to vote unless, in the transfer by the pledgor on the books of the corporation, he shall have expressly empowered the pledgee to vote thereon, in which case only the pledgee or his proxy may represent said stock and vote thereon.

12. SHAREHOLDERS' LISTS. A complete list of the shareholders entitled to vote at every election of directors, arranged in alphabetical order, with the address of and the number of voting shares held by each shareholder, shall be prepared by the officer having charge of the stock books of the corporation and for at least ten days prior to the date of the election shall be open at the place where the election is to be held, during the usual hours for business, to the examination of any shareholder and shall be produced and kept open at the place of the election during the whole time thereof to the inspection of any shareholder present. The original or duplicate stock ledger shall be the only evidence as to who are shareholders entitled to examine such lists, or the books of the corporation, or to vote in person or by proxy, at such election. Failure to comply with the foregoing shall not affect the validity of any action taken at any such meeting.

13. RECORDS. The corporation shall maintain such books and records as shall be dictated by good business practice and by law. The books and records of the corporation may be kept at any one or more offices of the corporation within or without the State of Missouri, except that the original or duplicate stock ledger containing the names and addresses of the shareholders, and the number of shares held by them, shall be kept at the registered office of the corporation in Missouri. Every shareholder shall have a right to examine, in person, or by agent or attorney, at any reasonable time, for any reasonable purpose, the bylaws, stock register, books of account, and records of the proceedings of the shareholders and directors, and to make copies of or extracts from them.

DIRECTORS

14. NUMBER AND POWERS OF THE BOARD. The property and business of this corporation shall be managed by a board of directors, and the number of directors to constitute the board shall be not less than seven nor more than twelve, the exact number to be fixed by a resolution adopted by the affirmative vote of a majority of the whole board of directors. Directors need not be shareholders. In addition to the powers and authorities by these bylaws expressly conferred upon the

board of directors, the board may exercise all such powers of the corporation and do or cause to be done all such lawful acts and things as are not prohibited, or required to be exercised or done by the shareholders only.

15. **INCUMBENCY OF DIRECTORS.** (a) Election And Term Of Office. Directors shall be elected at each annual meeting of shareholders to hold office until the next succeeding annual meeting of shareholders or until such director's successor has been elected and qualified. The term of office of each director shall begin immediately after his or her election and each director shall hold office until the next succeeding annual meeting of shareholders or until such director's successor has been elected and qualified and subject to prior death, resignation, retirement or removal from office of a director. No decrease in the number of directors constituting the board of directors shall reduce the term of any incumbent director. No person shall serve as a director for a period or consecutive periods that extend beyond the twelfth annual shareholders meeting following the annual shareholders meeting at which such person was first elected to the board of directors by the shareholders.

(b) Removal. The entire board of directors of the corporation may be removed at any time but only by the affirmative vote of the holders of 80% or more of the outstanding shares of each class of stock of the corporation entitled to elect one or more directors at a meeting of the shareholders called for such purpose.

(c) Qualification of Directors. To qualify for election or service as a director of the corporation, each incumbent director shall agree to resign from any portion of his or her current term that extends beyond the certification of election results of the next annual election of directors.

16. **VACANCIES.** Any newly created directorship resulting from an increase in the number of directors, and any vacancy occurring on the board of directors through death, resignation, disqualification, disability or any other cause, may be filled by vote of a majority of the surviving or remaining directors then in office, although less than a quorum, or by a sole remaining director. Any director so elected to fill a vacancy shall hold office for the unexpired portion of the term of the director whose place shall be vacated and until the election and qualification of his successor.

17. **MEETINGS OF THE NEWLY ELECTED BOARD OF DIRECTORS — NOTICE.** The first meeting of each newly elected board, which shall be deemed the annual meeting of the board, shall be held on the same day as the annual meeting of shareholders, or as soon thereafter as practicable, at such time and place, either within or without the State of Missouri, as shall be designated by the president. No notice of such meeting shall be necessary to the continuing or newly elected directors in order legally to constitute the meeting, provided that a majority of the whole board shall be present; or the members of the board may meet at such place and time as shall be fixed by the consent in writing of all of the directors.

18. **NOTICE.** (a) Regular Meetings. Regular meetings of the board of directors may be held without notice at such place or places, within or without the State of Missouri, and at such time or times, as the board of directors may from time

to time fix by resolution adopted by the whole board. Any business may be transacted at a regular meeting.

(b) Special Meetings. Special meetings of the board of directors may be called by the chairman, the chief executive officer, the president or any two directors. Notice thereof stating the place, date and hour of the meeting shall be given to each director either by mail not less than 48 hours before the date of the meeting, by telephone or telegram on 24 hours' notice, or on such shorter notice as the person or persons calling such meeting may deem necessary or appropriate in the circumstances. The place may be within or without the State of Missouri as designated in the notice. The "call" and the "notice" of any such meeting shall be deemed synonymous.

19. QUORUM. At all meetings of the board of directors a majority of the whole board shall, unless a greater number as to any particular matter is required by statute, by the Articles of Incorporation or by these bylaws, constitute a quorum for the transaction of business, and the act of a majority of the directors present at any meeting at which there is a quorum shall be the act of the board of directors. Less than a quorum may adjourn the meeting successively until a quorum is present, and no notice of adjournment shall be required.

The foregoing provisions relating to a quorum for the transaction of business shall not be affected by the fact that one or more of the directors have or may have interests in any matter to come before a meeting of the board, which interests are or might be adverse to the interests of this corporation. Any such interested director or directors shall at all times be considered as present for the purpose of determining whether or not a quorum exists, provided such director or directors are in attendance and do not waive the right to vote.

20. NOMINATIONS FOR ELECTION AS DIRECTORS. Only persons who are nominated in accordance with the following procedures shall be eligible for election as directors. Nominations of persons for election to the board of directors may be made at a meeting of shareholders (i) by or at the direction of the board of directors by any nominating committee or person appointed by the board or (ii) by any shareholder of the corporation entitled to vote for the election of directors at the meeting who complies with the notice procedures set forth in this section 20. Such nominations, other than those made by or at the direction of the board, shall be made pursuant to timely notice in writing to the secretary.

To be timely, a shareholder's notice shall be delivered to or mailed and received at the principal executive offices of the corporation not less than 45 days before the date in the year of the annual meeting corresponding to the date on which the corporation first mailed its proxy materials for the prior year's annual meeting of shareholders. Such shareholder's notice to the secretary shall set forth (a) as to each person whom the shareholder proposes to nominate for election or reelection as a director, such person's name, age, business address, residence address, and principal occupation or employment, the class and number of shares of capital stock of the corporation that are beneficially owned by such person, and any other information relating to such person that is required to be disclosed in solicitations for proxies for

election of directors pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended; and (b) as to the shareholder giving the notice, such shareholder's name and record address and the class and number of shares of capital stock of the corporation that are beneficially owned by such shareholder. The corporation may require any proposed nominee to furnish such other information as may reasonably be required by the corporation to determine the eligibility of such proposed nominee to serve as a director of the corporation. No person shall be eligible for election as a director of the corporation unless nominated in accordance with the procedures set forth herein.

The chairman of the meeting shall, if the facts warrant, determine and declare to the meeting that a nomination was not made in accordance with the foregoing procedure, and if he should so determine, he shall so declare to the meeting and the defective nomination shall be disregarded.

21. DIRECTORS' ACTION WITHOUT MEETING. If all the directors severally or collectively consent in writing to any action to be taken by the directors, such consents shall have the same force and effect as a unanimous vote of the directors at a meeting duly held. The secretary shall file such consents with the minutes of the meetings of the board of directors.

22. WAIVER. Any notice provided or required to be given to the directors may be waived in writing by any of them, whether before, at, or after the time stated therein. Attendance of a director at any meeting shall constitute a waiver of notice of such meeting except where he attends for the express purpose of objecting to the transaction of any business thereat because the meeting is not lawfully called or convened.

23. INDEMNIFICATION OF DIRECTORS AND OFFICERS AND CONTRIBUTION. (a) Scope of Indemnification. The corporation shall indemnify any director, and may indemnify any officer, of the corporation who was or is a party or witness, or is threatened to be made a party or witness, to any threatened, pending or completed action, suit or proceeding (including, without limitation, an action, suit or proceeding by or in the right of the corporation), whether civil, criminal, administrative or investigative (including a grand jury proceeding), by reason of the fact that the person is or was (i) a director or officer of the corporation or (ii) serving at the request of the corporation, as a director, officer, employee, agent, partner or trustee (or in any similar position) of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise, to the fullest extent authorized or permitted by the Missouri General and Business Corporation Law and any other applicable law, as the same exists or may hereinafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits the corporation to provide broader indemnification rights than said law permitted the corporation to provide prior to such amendment), against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by the person in connection with such action, suit or proceeding, or in connection with any appeal thereof; *provided, however*, that, except as provided in section 23(b) with respect to proceedings to enforce rights to indemnification, the corporation shall indemnify any person in

connection with an action, suit or proceeding (or part thereof) initiated by such person only if the initiation of such action, suit or proceeding (or part thereof) was authorized by the board of directors. Any right to indemnification hereunder shall include the right to payment by the corporation of expenses incurred in connection with any such action, suit or proceeding in advance of its final disposition; *provided, however*, that any payment of such expenses incurred by a director or officer in advance of the final disposition of such action, suit or proceeding shall be made only upon delivery to the corporation of an undertaking, by or on behalf of such director or officer, to repay all amounts so advanced unless it should be determined ultimately that such director or officer is entitled to be indemnified under this section or otherwise.

(b) Payment, Determination and Enforcement. Any indemnification or advancement of expenses required under this section shall be made promptly. If a determination by the corporation that a director is entitled to indemnification is required, and the corporation fails to make such determination within ninety days after final determination of an action, suit or proceeding, the corporation shall be deemed to have approved such request. If with respect to director indemnification the corporation denies indemnification or a written request for advancement of expenses, in whole or in part, or if payment in full pursuant to such determination or request is not made within thirty days, the right to indemnification and advancement of expenses as granted by this section shall be enforceable by the director in any court of competent jurisdiction. Such director's costs and expenses incurred in connection with successfully establishing the right to indemnification, in whole or in part, in any such action or proceeding shall also be indemnified by the corporation. It shall be a defense to any such action (other than an action brought to enforce a claim for the advancement of expenses pursuant to this section where the required undertaking has been received by the corporation) that the claimant has not met the applicable standard of conduct set forth in Sections 351.355.1 or 351.355.2 of the Missouri General and Business Corporation Law, but the burden of proving such defense shall be on the corporation. Neither the failure of the corporation (including the board of directors, independent legal counsel or the shareholders) to have made a determination prior to the commencement of such action that indemnification of the claimant is proper in the circumstances because the person has met the applicable standard of conduct set forth in the Missouri General and Business Corporation Law, nor the fact that there has been an actual determination by the corporation (including the board of directors, independent legal counsel or the shareholders) that the claimant has not met such applicable standard of conduct, shall be a defense to the action or create a presumption that the claimant has not met the applicable standard of conduct.

(c) Nonexclusivity, Duration and Indemnification Agreements. The indemnification and advancement of expenses provided by, or granted pursuant to, this section shall not be deemed exclusive of any other rights to which those seeking indemnification or advancement of expenses may be entitled either under the Articles of Incorporation or any other bylaw, agreement, vote of shareholders or disinterested directors or otherwise, both as to action in the person's official capacity and as to action in another capacity while holding such office, and shall continue as to a person who has ceased to be a director or officer, and shall inure to the benefit of

the heirs, executors and administrators of such person. Any repeal or modification of the provisions of this section 23 shall not affect any obligations of the corporation or any rights regarding indemnification and advancement of expenses of a director or officer with respect to any threatened, pending or completed action, suit or proceeding in which the alleged cause of action accrued at any time prior to such repeal or modification. Upon approval of a majority of a quorum of disinterested directors, the corporation may enter into indemnification agreements with officers and directors of the corporation, or extend indemnification to officers, employees or agents of the corporation, upon such terms and conditions as may be deemed appropriate

(d) Insurance. The corporation may purchase and maintain insurance, at its expense, to protect itself and any person who is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee, agent, partner or trustee of another corporation, partnership, joint venture, trust, employment benefit plan or other enterprise against any liability asserted against the person and incurred by the person in any such capacity, or arising out of his or her status as such, whether or not the corporation would have the power to indemnify the person against such liability under the provisions of this section, the Missouri General and Business Corporation Law or otherwise.

(e) Severability. If this section or any portion thereof shall be invalidated on any ground by any court of competent jurisdiction, then the corporation shall nevertheless indemnify each director of the corporation as to expenses (including attorneys' fees), judgments, fines and amounts paid in settlement with respect to any action, suit or proceeding, whether civil, criminal, administrative or investigative, including (without limitation) a grand jury proceeding and an action, suit or proceeding by or in the right of the corporation, to the fullest extent authorized or permitted by any applicable portion of this section that shall not have been invalidated by the Missouri General and Business Corporation Law or by any other applicable law.

(f) Contribution. In order to provide for just and equitable contribution in circumstances in which the indemnification provided for in this section is held by a court of competent jurisdiction to be unavailable in whole or part to a director, the corporation shall contribute to the payment of the indemnitee's losses that would have been so indemnified in an amount that is just and equitable in the circumstances, taking into account, among other things, contributions by other directors of the corporation pursuant to indemnification agreements or otherwise. In the absence of personal enrichment of indemnitee, or acts of intentional fraud or dishonest or criminal conduct on the part of indemnitee, it would not be just and equitable for indemnitee to contribute to the payment of losses arising out of an action, suit or proceeding in an amount greater than: (i) in a case where indemnitee is a director of the corporation or any of its subsidiaries but not an officer of either, the amount of fees paid to indemnitee for serving as a director during the 12 months preceding the commencement of such action, suit or proceeding, or (ii) in a case where indemnitee is a director of the corporation or any of its subsidiaries and is an officer of either, the amount set forth in clause (i) plus 5 percent of the aggregate

cash compensation paid to indemnitee for serving as such officer(s) during the 12 months preceding the commencement of such action, suit or proceeding. The corporation shall contribute to the payment of losses covered hereby to the extent not payable by the indemnitee pursuant to the contribution provisions set forth in the preceding sentence.

24. INTERESTS OF DIRECTORS. In case the corporation enters into contracts or transacts business with one or more of its directors, or with any firm of which one or more of its directors are members or with any other corporation or association of which one or more of its directors are members, shareholders, directors or officers, such transaction or transactions shall not be invalidated or in any way affected by the fact that such director or directors have or may have interests therein which are or might be adverse to the interests of this corporation; provided that such contract or transaction is entered into in good faith and authorized or ratified on behalf of this corporation by the board of directors or by a person or persons (other than the contracting person) having authority to do so, and if the directors or other person or persons so authorizing or ratifying shall then be aware of the interest of such contracting person. In any case in which any transaction described in this section 24 is under consideration by the board of directors, the board may, upon the affirmative vote of a majority of the whole board, exclude from its presence while its deliberations with respect to such transaction are in progress any director deemed by such majority to have an interest in such transaction.

25. COMMITTEES. (a) Executive Committee. The board of directors may, by resolution or resolutions passed by a majority of the whole board, designate an executive committee, such committee to consist of two or more directors of the corporation, which committee, to the extent provided in said resolution or resolutions, shall have and may exercise all of the authority of the board of directors in the management of the corporation. The executive committee shall keep regular minutes of its proceedings and the same shall be recorded in the minute book of the corporation. The secretary or an assistant secretary of the corporation may act as secretary for the committee if the committee so requests.

(b) Audit Committee. The corporation shall maintain an audit committee consisting of at least three directors. No member of the audit committee shall be an employee of the corporation, and each member of the audit committee shall be independent pursuant to standards promulgated by the Securities Exchange Commission and the New York Stock Exchange. The audit committee shall be responsible for assisting the board of directors regarding (i) the integrity of the corporation's financial statements, (ii) the corporation's compliance with legal and regulatory requirements, (iii) the independent auditor's qualifications and independence and (iv) the performance of the corporation's internal audit function and independent auditor. The audit committee shall have sole responsibility for appointing, retaining, discharging or replacing the corporation's independent auditor and, following completion of the independent auditor's examination of the corporation's consolidated financial statements, review with the independent auditor and corporation management, such matters in connection with the audit as deemed necessary and desirable by the audit committee. The audit committee shall have

such additional duties, responsibilities, functions and powers as may be delegated to it by the board of directors of the corporation. The audit committee shall be empowered to retain, at the expense of the corporation, independent expert(s) if it deems this to be necessary.

(c) Other Committees. The board of directors may also, by resolution or resolutions passed by a majority of the whole board, designate other committees, with such persons, powers and duties as it deems appropriate and as are not inconsistent with law.

26. **COMPENSATION OF DIRECTORS AND COMMITTEE MEMBERS**. By resolution duly adopted by a majority of the board of directors, directors and members shall be entitled to receive reasonable annual compensation for services rendered to the corporation as such, and a fixed sum and expenses of attendance, if any, may be allowed for attendance at each regular or special meeting of the board or committee; provided that nothing herein contained shall be construed to preclude any director or committee member from serving the corporation in any other capacity and receiving compensation therefor.

27. **OFFICERS**. (a) Elected Officers. The following officers of the corporation shall be chosen or appointed by election by the board of directors, and shall be deemed elected officers: a president or chief executive officer, a secretary, and a treasurer; also, if the board desires, a chairman of the board, a vice chairman of the board, a chief executive officer, one or more vice presidents, one or more assistant secretaries and one or more assistant treasurers. The chairman of the board, the vice chairman of the board and the chief executive officer shall be deemed executive officers of the corporation, and shall be vested with such powers, duties, and authority as the board of directors may from time to time determine and as may be set forth in these bylaws.

Any two or more of such offices may be held by the same person, except the offices of chairman of the board and vice chairman of the board, chairman of the board and chief executive officer, chairman of the board and president, president and vice president, and president and secretary. Furthermore, the chairman of the board shall be independent pursuant to standards promulgated by the Securities Exchange Commission and the New York Stock Exchange and shall not have served previously as an executive officer of the Company.

An elected officer shall be deemed qualified when he enters upon the duties of the office to which he has been elected and furnishes any bond required by the board; but the board may also require of such person his written acceptance and promise faithfully to discharge the duties of such office.

(b) Election Of Officers. The board of directors at each annual meeting thereof shall elect a president, a secretary and a treasurer, who need not be directors. The board then, or from time to time, may elect a chairman of the board, a vice chairman of the board, a chief executive officer and such vice presidents, assistant secretaries and assistant treasurers as it may deem advisable or necessary.

(c) Term Of Office. Each elected officer of the corporation shall hold his or her office for the term for which he or she was elected, or until he or she resigns or is removed by the board, whichever first occurs.

(d) Appointment Of Officers And Agents — Terms of Office. The board from time to time may also appoint such other officers and agents for the corporation as it shall deem necessary or advisable. All appointed officers and agents shall hold their respective positions at the pleasure of the board or for such terms as the board may specify, and they shall exercise such powers and perform such duties as shall be determined from time to time by the board, or by an elected officer empowered by the board to make such determinations.

28. REMOVAL. Any officer or agent elected or appointed by the board of directors, and any employee, may be removed or discharged by the board whenever in its judgment the best interests of the corporation would be served thereby, but such removal shall be without a prejudice to the contract rights, if any, of the person so removed.

29. SALARIES AND COMPENSATION. Salaries and compensation of all elected officers of the corporation shall be fixed, increased or decreased by the board of directors, but this power, except as to the salary or compensation of the chairman of the board, the vice chairman of the board, the chief executive officer and the president, may, unless prohibited by law, be delegated by the board to the chairman of the board, the vice chairman of the board, the chief executive officer, the president or a committee of the board. Salaries and compensation of all other appointed officers, agents, and employees of the corporation may be fixed, increased or decreased by the board of directors, but until action is taken with respect thereto by the board of directors, the same may be fixed, increased or decreased by the chairman of the board, by the chief executive officer, by the president or by such other officer or officers as may be empowered by the board of directors to do so.

30. DELEGATION OF AUTHORITY TO HIRE, DISCHARGE, ETC. The board from time to time may delegate to the chairman of the board, the vice chairman of the board, the chief executive officer, the president or other officer or executive employee of the corporation, authority to hire, discharge, and fix and modify the duties, salary or other compensation of employees of the corporation under their jurisdiction, and the board may delegate to such officer or executive employee similar authority with respect to obtaining and retaining for the corporation the services of attorneys, accountants (subject to Section 25(b) of these Bylaws) and other experts.

31. THE CHAIRMAN OF THE BOARD, THE VICE CHAIRMAN OF THE BOARD, THE CHIEF EXECUTIVE OFFICER AND THE PRESIDENT. The president may be elected by the board of directors to be the chief executive officer of the corporation, or the board of directors may elect a chief executive officer who is not the president, and the chief executive officer shall have general and active management of the business of the corporation and shall carry into effect all directions and resolutions of the board. The chairman of the board, the vice

chairman of the board, the chief executive officer and the president shall be vested with such powers, duties, and authority as the board of directors may from time to time determine and as may be set forth in these bylaws. Except as otherwise provided for in these bylaws, the chairman of the board, or in his absence, the chief executive officer or president, shall preside at all meetings of the shareholders of the corporation and at all meetings of the board of directors.

The chairman of the board, vice chairman of the board, the chief executive officer or president may execute all bonds, notes, debentures, mortgages, and other contracts requiring a seal, under the seal of the corporation and may cause the seal to be affixed thereto, and all other instruments for and in the name of the corporation, except that if by law such instruments are required to be executed only by the president, he shall execute them.

The chairman of the board, vice chairman of the board, chief executive officer or president, when authorized so to do by the board, may execute powers of attorney from, for, and in the name of the corporation, to such proper person or persons as he may deem fit, in order that thereby the business of the corporation may be furthered or action taken as may be deemed by him necessary or advisable in furtherance of the interests of the corporation.

The chairman of the board, vice chairman of the board, chief executive officer or president, except as may be otherwise directed by the board, shall attend meetings of shareholders of other corporations to represent this corporation thereat and to vote or take action with respect to the shares of any such corporation owned by this corporation in such manner as he shall deem to be for the interests of the corporation or as may be directed by the board.

The chairman of the board, vice chairman of the board, chief executive officer or president shall have such other or further duties and authority as may be prescribed elsewhere in these bylaws or from time to time by the board of directors.

32. VICE PRESIDENTS. The vice presidents in the order of their seniority shall, in the absence, disability or inability to act of the chairman of the board, the vice chairman of the board, the chief executive officer and the president, perform the duties and exercise the powers of the chairman of the board, the vice chairman of the board, the chief executive officer and the president, and shall perform such other duties as the board of directors shall from time to time prescribe.

33. THE SECRETARY AND ASSISTANT SECRETARIES. The secretary shall, as requested by the board, attend all sessions of the board and except as otherwise provided for in these bylaws, all meetings of the shareholders, and shall record or cause to be recorded all votes taken and the minutes of all proceedings in a minute book of the corporation to be kept for that purpose. He or she shall perform like duties for the executive and other standing committees when requested by the board or such committee to do so.

The secretary shall have the principal responsibility to give, or cause to be given, notice of all meetings of the shareholders and of the board of directors, but

this shall not lessen the authority of others to give such notice as is authorized elsewhere in these bylaws.

The secretary shall see that all books, records, lists and information, or duplicates, required to be maintained at the registered or home office of the corporation in Missouri, or elsewhere, are so maintained.

The secretary shall keep in safe custody the seal of the corporation, and when duly authorized to do so shall affix the same to any instrument requiring it, and when so affixed, he shall attest the same by his signature.

The secretary shall perform such other duties and have such other authority as may be prescribed elsewhere in these bylaws or from time to time by the board of directors, the chairman of the board, chief executive officer or the president, under whose direct supervision he shall be.

The secretary shall have the general duties, powers and responsibilities of a secretary of a corporation.

The assistant secretaries, in the order of their seniority, in the absence, disability or inability to act of the secretary, shall perform the duties and exercise the powers of the secretary, and shall perform such other duties as the board may from time to time prescribe.

34. THE TREASURER AND ASSISTANT TREASURERS. The treasurer shall have the responsibility for the safekeeping of the funds and securities of the corporation, and shall deposit or cause to be deposited all monies and other valuable effects in the name and to the credit of the corporation in such depositories as may be designated by the board of directors.

The treasurer shall disburse, or permit to be disbursed, the funds of the corporation as may be ordered, or authorized generally, by the board, and shall render to the chief executive officers of the corporation and the directors whenever they may require it, an account of all transactions as treasurer and of those under his or her jurisdiction, and of the financial condition of the corporation.

The treasurer shall perform such other duties and shall have such other responsibility and authority as may be prescribed elsewhere in these bylaws or from time to time by the board of directors.

The treasurer shall have the general duties, powers and responsibility of a treasurer of a corporation.

The assistant treasurers in the order of their seniority shall, in the absence, disability or inability to act of the treasurer, perform the duties and exercise the powers of the treasurer, and shall perform such other duties as the board of directors shall from time to time prescribe.

35. DUTIES OF OFFICERS MAY BE DELEGATED. If any officer of the corporation be absent or unable to act, or for any other reason that the board may deem sufficient, the board may delegate, for the time being, some or all of the functions, duties, powers and responsibilities of any officer to any other officer, or to any other agent or employee of the corporation or other responsible person, provided a majority of the whole board concurs therein.

SHARES OF STOCK

36. CERTIFICATES OF STOCK. The certificates for shares of stock of the corporation shall be numbered, shall be in such form as may be prescribed by the board of directors in conformity with law, and shall be entered into the stock books of the corporation as they are issued, and such entries shall show the name and address of the person, firm, partnership, corporation or association to whom each certificate is issued. Each certificate shall have printed, typed or written thereon the name of the person, firm, partnership, corporation or association to whom it is issued, and number of shares represented thereby and shall be signed by the president or a vice president, and the treasurer or an assistant treasurer or the secretary or an assistant secretary of the corporation, and sealed with the seal of the corporation, which seal may be facsimile, engraved or printed. If the corporation has a registrar, a transfer agent, or a transfer clerk who actually signs such certificates, the signatures of any of the other officers above mentioned may be facsimile, engraved or printed. In case any such officer who has signed or whose facsimile signature has been placed upon any such certificate shall have ceased to be such officer before such certificate is issued, such certificate may nevertheless be issued by the corporation with the same effect as if such officer were an officer at the date of its issue.

37. TRANSFERS OF SHARES — TRANSFER AGENT — REGISTRAR. Transfers of shares of stock shall be made on the books of the corporation only by the person named in the stock certificate or by his attorney lawfully constituted in writing, and upon surrender of the certificate therefor. The stock record books and other transfer records shall be in the possession of the secretary or of a transfer agent or clerk of the corporation. The corporation may from time to time appoint a transfer agent and if desired a registrar, under such arrangements and upon such terms and conditions as the corporation deems advisable; but until and unless the corporation appoints some other person, firm, or corporation as its transfer agent (and upon the revocation of any such appointment, thereafter until a new appointment is similarly made) the secretary shall be the transfer agent or clerk of the corporation, without the necessity of any formal action of the board of directors and the secretary shall perform all of the duties thereof.

38. LOST CERTIFICATE. In the case of the loss or destruction of any outstanding certificate for shares of stock of the corporation, the corporation may issue a duplicate certificate (plainly marked "duplicate"), in its place, provided the registered owner thereof or his legal representatives furnish due proof of loss thereof by affidavit, and (if required by the board of directors, in its discretion) furnish a bond in such amount and form and with such surety as may be prescribed by the

board. In addition, the board of directors may make any other requirements which it deems advisable.

39. CLOSING OF TRANSFER BOOKS. The board of directors shall have power to close the stock transfer books of the corporation for a period not exceeding seventy days preceding the date of any meeting of the shareholders, or the date for payment of any dividend, or the date for the allotment of rights, or any effective date or change or conversion or exchange of capital stock; provided, however, that in lieu of closing the stock transfer books as aforesaid, the board of directors may fix in advance a date, not exceeding seventy days preceding the effective date of any of the above enumerated transactions, as a record date; and in either case such shareholders and only such shareholders as shall be shareholders of record on the date of closing the transfer books, or on the record date so fixed, shall be entitled to receive notice of any such transaction or to participate in any such transactions notwithstanding any transfer of any share on the books of the corporation after the date of closing the transfer books or such record date so fixed.

GENERAL

40. DIVIDENDS. Dividends upon the shares of stock of the corporation, subject to any applicable provisions of the Articles of Incorporation and of any applicable laws or statutes may be declared by the board of directors at any regular or special meeting. Dividends may be paid in cash, in property or in shares of its stock and to the extent and in the manner provided by law out of any available earned surplus or earnings of the corporation. Liquidating dividends or dividends representing a distribution of paid-in surplus or a return of capital shall be made only when and in the manner permitted by law.

41. CREATION OF RESERVES. Before the payment of any dividends, there may be set aside out of any funds of the corporation available for dividends such sum or sums as the board of directors from time to time, in their absolute discretion, think proper as a reserve fund or funds, to meet contingencies, or for equalizing dividends, or for repairing, or maintaining any property of the corporation, or for such other purposes as the board of directors shall think conducive to the interests of the corporation, and the board of directors may abolish any such reserve in the manner in which it was created.

42. FIXING OF CAPITAL, TRANSFERS OF SURPLUS. Except as may be specifically otherwise provided in the Articles of Incorporation, the board of directors is expressly empowered to exercise all authority conferred upon it or the corporation by any law or statute, and in conformity therewith, relative to:

- (i) The determination of what part of the consideration received for shares of the corporation shall be capital;
 - (ii) Increasing or reducing capital;
 - (iii) Transferring surplus to capital or capital to surplus;
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- (iv) Allocating capital to shares of a particular class of stock;
- (v) The consideration to be received by the corporation for its shares; and
- (vi) All similar or related matters;

provided that any concurrent action or consent by or of the corporation and its shareholders required to be taken or given pursuant to law, shall be duly taken or given in connection therewith.

43. CHECKS, NOTES AND MORTGAGES. All checks, drafts, or other instruments for the payment, disbursement, or transfer of monies or funds of the corporation may be signed in its behalf by the treasurer of the corporation, unless otherwise provided by the board of directors. All notes of the corporation and any mortgages or other forms of security given to secure the payment of the same may be signed by the president who may cause to be affixed the corporate seal attested by the secretary or assistant secretary. The board of directors by resolution adopted by a majority of the whole board from time to time may authorize any officer or officers or other responsible person or persons to execute any of the foregoing instruments for and in behalf of the corporation.

44. FISCAL YEAR. The board of directors may fix and from time to time change the fiscal year of the corporation. In the absence of action by the board of directors, the fiscal year shall end each year on the same date which the officers of the corporation elect for the close of its first fiscal period.

45. TRANSACTIONS WITH RELATED PERSONS. The affirmative vote of not less than 80% of the outstanding shares of the corporation entitled to vote in an election of directors shall be required for the approval or authorization of any business transaction with a related person as set forth in the Articles of Incorporation in the manner provided therein.

46. DIRECTOR'S DUTIES; CONSIDERATION OF TENDER OFFERS. The board of directors shall have broad discretion and authority in considering and evaluating tender offers for the stock of this corporation. Directors shall not be liable for breach of their fiduciary duty to the shareholders merely because the board votes to accept an offer that is not the highest price per share, provided, that the directors act in good faith in considering collateral nonprice factors and the impact on constituencies other than the shareholders (i.e., effect on employees, corporate existence, corporate creditors, the community, etc.) and do not act in willful disregard of their duties to the shareholders or with a purpose, direct or indirect, to perpetuate themselves in office as directors of the corporation.

47. AMENDMENT OF BYLAWS. (a) By Directors. The board of directors may make, alter, amend, change, add to or repeal these bylaws, or any provision thereof, at any time.

(b) By Shareholders. These bylaws may be amended, modified, altered, or repealed by the shareholders, in whole or in part, only at the annual meeting of shareholders or at the special meeting of shareholders called for such purpose, only upon the affirmative vote of the holders of not less than 80% of the outstanding shares of stock of this corporation entitled to vote generally in the election of directors, provided that an affirmative vote of a majority of the votes entitled to be cast shall be sufficient to approve any such amendment, modification, alteration or repeal that has been adopted by a vote of 80% of the members of the board of directors.

**H&R BLOCK SEVERANCE PLAN
SEPTEMBER 2008**

1. **Purpose.** The H&R Block Severance Plan is a welfare benefit plan established by H&R Block Management, LLC, an indirect subsidiary of H&R Block, Inc., for the benefit of certain subsidiaries of H&R Block, Inc. in order to provide severance pay to certain employees to compensate for the involuntary loss of employment and a period of readjustment under the conditions set forth herein. This document constitutes both the plan document and the summary plan description required by the Employee Retirement Income Security Act of 1974.

2. **Definitions.**

- (a) "Average Commission Amount" means an average of the Participant's prior three calendar year commission earnings (calculated each year beginning January 1). For Participant's, employed as a Sales Assistance, with less than three years of commission history, "Average Commission Amount" means the average of total commissions earned.
- (b) "Cause" means one or more of the following grounds of an Employee's termination of employment with a Participating Employer:
- (i) misconduct that interferes with or prejudices the proper conduct of the Company, the Employee's Participating Employer, or any other affiliate of the Company, or which may reasonably result in harm to the reputation of the Company, the Employee's Participating Employer, or any other affiliate of the Company;
 - (ii) commission of an act of dishonesty or breach of trust resulting or intending to result in material personal gain or enrichment of the Employee at the expense of the Company, the Employee's Participating Employer, or any other affiliate of the Company;
 - (iii) commission of an act materially and demonstrably detrimental to the good will of the Company, the Employee's Participating Employer, or any other affiliate of the Company, which act constitutes gross negligence or willful misconduct by the Employee in the performance of the Employee's material duties;
 - (iv) material violations of the policies or procedures of the Employee's Participating Employer, including, but not limited to, the H&R Block Code of Business Ethics & Conduct, except those policies or procedures with respect to which an exception has been granted under authority exercised or delegated by the Participating Employer;
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- (v) disobedience, insubordination or failure to discharge employment duties;
- (vi) conviction of, or entrance of a plea of guilty or no contest, to a misdemeanor (involving an act of moral turpitude) or a felony;
- (vii) inability of the Employee, the Company, the Employee's Participating Employer, and/or any other affiliate of the Company to participate, in whole or in part, in any activity subject to governmental regulation as the result of any action or inaction on the part of the Employee;
- (viii) the Employee's death or total and permanent disability. The term "total and permanent disability" will have the meaning ascribed thereto under any long-term disability plan maintained by the Employee's Participating Employer;
- (ix) any grounds described as a discharge or other similar term on the Participating Employer's separation review form or other similar document stating the reason for the Employee's termination of employment, including poor performance; or
- (x) any other grounds of termination of employment that the Participating Employer deems for cause.

Notwithstanding the definition of Cause above, if an Employee's employment with a Participating Employer is subject to an employment agreement that contains a definition of "cause" for purposes of termination of employment, such definition of "cause" in such employment agreement shall replace the definition of Cause herein for the purpose of determining whether the Employee has incurred a Qualifying Termination, but only with respect to such Employee.

(c) "COBRA Subsidy" means an amount equal to the Participant's monthly post-employment premium for health and welfare benefits under the Consolidated Omnibus Budget Reconciliation Act of 1985 ("COBRA") less the amount the Participant paid for such benefits as an active employee. To be eligible for the COBRA Subsidy, the Participant must be enrolled in the Participating Employer's health and welfare plans on the Termination Date.

(d) "Code" means the Internal Revenue Code of 1986, as amended.

(e) "Company" means H&R Block, Inc.

(f) "Comparable Position" means a position where:

- (i) the primary work location is within 50 miles of the Employee's primary work location prior to the Qualifying Termination, and

- (ii) the compensation rate (salary and target bonus) is not more than 10% below the Employee's compensation rate at time of Qualifying Termination.
- (g) "Employee" means a regular full-time or part-time, active employee of a Participating Employer whose employment with a Participating Employer is not subject to an employment contract that contains a provision that includes severance benefits. This definition expressly excludes employees of a Participating Employer classified as seasonal, temporary and/or inactive and employees who are customarily employed by a Participating Employer less than 20 hours per week.
- (h) "ERISA" means the Employee Retirement Income Security Act of 1974, as amended.
- (i) "Hour of Service" means each hour for which an individual was entitled to compensation as a regular full-time or part-time employee from a subsidiary of the Company.
- (j) "Line of Business of the Company" with respect to a Participant means any line of business of the Participating Employer by which the Participant was employed as of the Termination Date, as well as any one or more lines of business of any other subsidiary of the Company by which the Participant was employed during the two-year period preceding the Termination Date, provided that, if Participant's employment was, as of the Termination Date or during the two-year period immediately prior to the Termination Date, with H&R Block Management, LLC or any successor entity thereto, "Line of Business of the Company" shall mean any lines of business of the Company and all of its subsidiaries.
- (k) "Monthly Compensation" means –
- (i) with respect to a Participant paid on a salary basis, the Participant's current annual salary divided by 12;
 - (ii) with respect to a Participant paid on an hourly basis, the Participant's current hourly rate times the number of hours he or she is regularly scheduled to work per week multiplied by 52 and then divided by 12;
 - (iii) with respect to a Participant, employed more than three years with a Participating Employer, who is paid, in whole or in part, on commission, the Participant's current base wages or salary plus the Participant's Average Commission Amount divided by 12;
 - (iv) with respect to a Participant, employed less than three years with a Participating Employer as a Financial Advisor, Monthly Compensation shall be established by the Compensation Schedule outlined in Schedule "C";

(v) with respect to a Participant, employed less than three years with a Participating Employer as a Sales Assistance, who is paid, in whole or in part, on commission, the Participant's base wages or salary plus the Participant's Average Commission Amount divided by 12; or

(vi) with respect to a Participant, employed as Branch Office Manager, Satellite Branch Office Manager or Registered Representative in Charge for H&R Block Financial Advisors, Inc., the Participant's base annual salary and any management bonuses (override bonus, strategic bonus and recruiting bonus) divided by 12. Monthly Compensation shall not include any commissions or bonuses from personal production.

(l) "Participant" means an Employee who has incurred a Qualifying Termination and has signed a Separation Agreement that has not been revoked during any revocation period provided under the Separation Agreement.

(m) "Participating Employer" means a direct or indirect subsidiary of the Company (i) listed on Schedule A, attached hereto, which may change from time to time to reflect new Participating Employers or withdrawing Participating Employers, and (ii) approved by the Plan Sponsor for participation in the Plan.

(n) "Plan" means the "H&R Block Severance Plan," as stated herein, and as may be amended from time to time.

(o) "Plan Administrator" and "Plan Sponsor" means H&R Block Management, LLC. The address and telephone number of H&R Block Management, LLC is One H&R Block Way, Kansas City, Missouri 64105, (816) 854-3000. The Employer Identification Number assigned to H&R Block Management, LLC by the Internal Revenue Service is 43-1632589.

(p) "Qualifying Termination" means the involuntary termination of an Employee, but does **not** include a termination resulting from:

(i) the elimination of the Employee's position where the Employee was offered a Comparable Position with a subsidiary or affiliate of the Company;

(ii) a sale of assets, stock sale, or other corporate acquisition or disposition where the Employee is offered a Comparable Position with the acquiring entity;

(iii) the redefinition of an Employee's position to a lower compensation rate or grade;

(iv) the termination of an Employee for Cause as defined in Section 2(b); or

(v) the non-renewal of employment contracts.

(q) "Release and Severance Agreement" means that agreement signed by and between an Employee who is eligible to participate in the Plan and the Employee's Participating Employer under which the Employee releases all known and potential claims against the Employee's Participating Employer and all of such employer's parents, subsidiaries, and affiliates and a Covenant Not to Sue. The Release and Severance Agreement also includes certain post-employment restrictive covenants including non-competition, non-solicitation, confidentiality, and, employee non-hire/non-solicitation.

(r) "Release Date" means, (i) with respect to a Release and Severance Agreement that includes a revocation period, the date immediately following the expiration date of the revocation period in the Release and Severance Agreement that has been fully executed by both parties; or (ii) with respect to a Release and Severance Agreement that does not include a revocation period, the date the Release and Severance Agreement has been fully executed by both parties. A Participant will be presented with a Release Agreement on Participant's Termination Date and will be required to execute such agreement within the timeframe set forth therein.

(s) "Severance Period" means the period of time following the Termination Date which will be the shorter of (i) 12 months or (ii) a number of months equal to the whole number of Years of Service determined under Section 2(u).

(t) "Termination Date" means the date the Employee severs employment with a Participating Employer.

(u) "Year of Service" means each period of 12 consecutive months ending on the Employee's employment anniversary date during which the Employee had at least 1,000 Hours of Service. In determining a Participant's Years of Service, the Participant will be credited with a partial Year of Service for his or her final period of employment commencing on his or her most recent employment anniversary date equal to a fraction calculated in accordance with the following formula:

$$\frac{\text{Number of days since most recent employment anniversary date}}{365}$$

Despite an Employee's Years of Service calculated in accordance with the above, an Employee will be credited with no less than the specified minimum Years of Service as outlined in Schedule "B". Notwithstanding an Employee's actual service, the maximum number of creditable Years of Service shall be 18.

Notwithstanding the above, if an Employee has received credit for Years of Service under this Plan or under any previous plan, program, or agreement for the purpose of receiving severance benefits before a Qualifying Termination, such Years of Service will be disregarded when calculating Years of Service for such Qualifying Termination under the Plan; provided, however, that if such severance benefits were terminated prior to completion because the Employee was rehired by any subsidiary of the Company then the Employee will be re-credited with full Years of Service for which severance benefits were not paid in full or in part because of such termination.

3. Eligibility and Participation.

An Employee who incurs a Qualifying Termination and signs a Release and Severance Agreement that has not been revoked during any revocation period under the Release and Severance Agreement is eligible to participate in the Plan. An eligible Employee will become a Participant in the Plan as of the later of the Termination Date or the Release Date.

4. Severance Compensation.

(a) Amount. Subject to Section 9, each Participant will receive from the applicable Participating Employer aggregate severance compensation equal to:

- (i) the Participant's Monthly Compensation multiplied by the Participant's Years of Service; plus
- (ii) a severance enhancement (as determined by the Participating Employer based upon the Participant's pay grade or band) multiplied by the Participant's Year's of Service; plus
- (iii) an amount equal to the Participant's COBRA Subsidy multiplied by the lesser of Participant's Years of Service or 12; plus
- (iv) an amount to be determined by the Participating Employer at its sole discretion, which amount may be zero.

(b) Timing of Payments. The sum of any amounts determined under Section 4(a) of the Plan will be paid in one lump sum within 30 days after the latest of the Termination Date or the Release Date, unless otherwise agreed in writing by the Participating Employer and Participant, or otherwise required by law.

5. Stock Options.

(a) Accelerated Vesting. Any portion of any outstanding incentive stock options and nonqualified stock options that would have vested during the 18-month period following the Termination Date had the Participant remained

an employee with the Participating Employer during such 18-month period will vest as of the Termination Date. This Section 5(a) applies only to options (i) granted to the Participant under the Company's 1993 Long-Term Executive Compensation Plan, 2003 Long-Term Executive Compensation Plan or any successor plan to its 2003 Long-Term Executive Compensation Plan, not less than 6 months prior to his or her Termination Date and (ii) outstanding at the close of business on such Termination Date. The determination of accelerated vesting under this Section 5(a) shall be made as of the Termination Date and shall be based solely on any time-specific vesting schedule included in the applicable stock option agreement without regard to any accelerated vesting provision not related to the Plan in such agreement.

(b) Post-Termination Exercise Period. Subject to the expiration dates and other terms of the applicable stock option agreements, the Participant may elect to have the right to exercise any outstanding incentive stock options and nonqualified stock options granted prior to the Termination Date to the Participant under the Company's 1993 Long-Term Executive Compensation Plan, its 2003 Long-Term Executive Compensation Plan, or any successor plan to its 2003 Long-Term Executive Compensation Plan that are vested as of the Termination Date (or, if later, the Release Date), whether due to the operation of Section 5(a), above, or otherwise, at any time during the Severance Period and for a period up to 3 months after the end of the Severance Period. Any such election shall apply to all outstanding incentive stock options and nonqualified stock options, will be irrevocable and must be made in writing and delivered to the Plan Administrator on or before the later of the Termination Date or Release Date. If the Participant fails to make an election, the Participant's right to exercise such options will expire 3 months after the Termination Date.

(c) Stock Option Agreement Amendment. The operation of Sections 5(a) and 5(b), above, are subject to the Participant's execution of an amendment to any affected stock option agreements, if necessary.

6. **Restricted Shares.** Any portion of any outstanding restricted shares awarded to the Participant under the 2003 Long-Term Executive Compensation Plan that would have vested in accordance with their terms by reason of lapse of time within six months of the Termination Date shall terminate and such Restricted Shares shall be fully vested.

7. **Outplacement Services.** In addition to the benefits described above, career transition counseling or outplacement services may be provided upon the Participant's Qualifying Termination. Such outplacement service will be provided at the Participating Employer's sole discretion. Outplacement services are designed to assist employees in their search for new employment and to facilitate a smooth transition between employment with the Participating Employer and employment with another employer. Any outplacement services provided under this Plan will be provided by an outplacement service chosen by the Participating Employer. The Participant is not entitled to any monetary payment in lieu of outplacement services.

8. Rehire/Reinstatement. In the event a Participant, who has been awarded Severance Pay under this Plan or a similar plan sponsored by a subsidiary of the Company, is reinstated or hired by the Participating Employer or a subsidiary of the Company in any position other than a position classified as seasonal by the employer, prior to being rehired or reinstated, such Participant shall return any portion of the severance pay that exceeds the amount of salary the Participant would have received during any layoff period. Upon return of the severance pay, described in this Section 8, the Participant shall be credited with prior service credit for purposes of eligibility for all benefits including paid time off, severance, seniority awards, health, welfare and retirement benefits. Prior Service Credit means that the Participant's prior period of employment is added to the current period, but the break period is not counted as part of the total service credit.

9. Termination of Benefits/Return of Severance Compensation. Any right of a Participant to severance compensation or other benefits under this Plan are subject to and conditioned upon Participant's agreement to abide by certain restrictive covenants. In the event a Participant violates the terms of the Separation Agreement by engaging in any conduct described in Sections 9(a), 9(b), 9(c), 9(d) or 9(e) below, such Participant shall return any Severance Compensation received under this Plan within ten (10) business days after the date of any written demand by the Participating Employer or the Plan.

(a) During the Severance Period, the Participant's engagement in, ownership of, or control of any interest in (except as a passive investor in less than one percent of the outstanding securities of publicly held companies), or acting as an officer, director or employee of, or consultant, advisor or lender to, any firm, corporation, partnership, limited liability company, institution, business, government agency, or entity that engages in any line of business that is competitive with any Line of Business of the Company, provided that this Section 9(a) shall not apply to the Participant if the Participant's primary place of employment by a subsidiary of the Company as of the Termination Date is in either the State of California or the State of North Dakota.

(b) During the Severance Period, the Participant employs or solicits for employment by any employer other than a subsidiary of the Company any employee of any subsidiary of the Company, or recommends any such employee for employment to any employer (other than a subsidiary of the Company) at which the Participant is or intends to be (i) employed, (ii) a member of the Board of Directors, (iii) a partner, or (iv) providing consulting services.

(c) During the Severance Period, the Participant directly or indirectly solicits or enters into any arrangement with any person or entity which is, at the time of the solicitation, a significant customer of a subsidiary of the Company for the purpose of engaging in any business transaction of the nature performed by such subsidiary, or contemplated to be performed by such subsidiary, for such customer, provided that this Section 9(c) shall only

apply to customers for whom the Participant personally provided services while employed by a subsidiary of the Company or customers about whom or which the Participant acquired material information while employed by a subsidiary of the Company.

(d) During the Severance Period, the Participant misappropriates or improperly uses or discloses confidential information of the Company and/or its subsidiaries.

(e) If the Participant engaged in any of the conduct described in Sections 9(a), 9(b), 9(c) or 9(d) during or after Participant's term of employment with a Participating Employer, but prior to the commencement of the Severance Period, and such engagement becomes known to the Participating Employer during the Severance Period, such conduct shall be deemed, for purposes of Sections 9(a), 9(b), 9(c) or 9(d) to have occurred during the Severance Period.

(f) If the Participant is a party to an employment contract with a Participating Employer that contains a covenant or covenants relating to the Participant's engagement in conduct that is the same as or substantially similar to the conduct described in any of Sections 9(a), 9(b), 9(c) or 9(d), and any specific conduct regulated in such covenant or covenants in such employment contract is more limited in scope geographically or otherwise than the corresponding specific conduct described in any of such Sections 9(a), 9(b), 9(c) or 9(d), then the corresponding specific conduct addressed in the applicable Section 9(a), 9(b), 9(c) or 9(d) shall be limited to the same extent as such conduct is limited in the employment contract and the Participating Employer's rights and remedy with respect to such conduct under this Section 9 shall apply only to such conduct as so limited.

10. Amendment and Termination. The Plan Sponsor reserves the right to amend the Plan or to terminate the Plan and all benefits hereunder in their entirety at any time.

11. Administration of Plan. The Plan Administrator has the power and discretion to construe the provisions of the Plan and to determine all questions relating to the eligibility of employees of Participating Employers to become Participants in the Plan, and the amount of benefits to which any Participant may be entitled thereunder in accordance with the Plan. Not in limitation, but in amplification of the foregoing and of the authority conferred upon the Plan Administrator, the Plan Sponsor specifically intends that the Plan Administrator have the greatest permissible discretion to construe the terms of the Plan and to determine all questions concerning eligibility, participation and benefits. Any such decision made by the Plan Administrator will be binding on all Employees, Participants, and beneficiaries, and is intended to be subject to the most deferential standard of judicial review. Such standard of review is not to be affected by any real or alleged conflict of interest on the part of the Plan Administrator. The decision of the Plan Administrator upon all matters within the scope of its authority will be final and binding.

12. Claims Procedures.

(a) **Filing a Claim for Benefits.** Participants are not required to submit claim forms to initiate payment of benefits under this Plan. To make a claim for benefits, individuals other than Participants who believe they are entitled to receive benefits under this Plan and Participants who believe they have been denied certain benefits under the Plan must write to the Plan Administrator. These individuals and such Participants are hereinafter referred to in this Section 12 as "Claimants." Claimants must notify the Plan Administrator if they will be represented by a duly authorized representative with respect to a claim under the Plan.

(b) **Initial Review of Claims.** The Plan Administrator will evaluate a claim for benefits under the Plan. The Plan Administrator may solicit additional information from the Claimant if necessary to evaluate the claim. If the Plan Administrator denies all or any portion of the claim, the Claimant will receive, within 90 days after the receipt of the written claim, a written notice setting forth:

(i) the specific reason for the denial;

(ii) specific references to pertinent Plan provisions on which the Plan Administrator based its denial;

(iii) a description of any additional material and information needed for the Claimant to perfect his or her claim and an explanation of why the material or information is needed; and

(iv) that any appeal the Claimant wishes to make of the adverse determination must be in writing to the Plan Administrator within 60 days after receipt of the notice of denial of benefits. The notice must advise the Claimant that his or her failure to appeal the action to the Plan Administrator in writing within the 60-day period will render the Plan Administrator's determination final, binding and conclusive. The notice must further advise the Claimant of his or her right to bring a civil action under Section 502(a) of ERISA following the exhaustion of the claims procedures described herein.

(c) **Appeal of Denied Claim and Final Decision.** If the Claimant should appeal to the Plan Administrator, the Claimant, or his or her duly authorized representative, must submit, in writing, whatever issues and comments the Claimant or his or her duly authorized representative feels are pertinent. The Claimant, or his or her duly authorized representative, may review and request pertinent Plan documents. The Plan Administrator will reexamine all facts related to the appeal and make a final determination as to whether the denial of benefits is justified under the circumstances. The Plan Administrator will advise the Claimant in writing of its decision within 60 days of the Claimant's written request for review, unless special circumstances (such as a hearing) require an extension of time, in which case

the Plan Administrator will make a decision as soon as possible, but no later than 120 days after its receipt of a request for review.

13. **Plan Financing.** The benefits to be provided under the Plan will be paid by the applicable Participating Employer, as incurred, out of the general assets of such Participating Employer.

14. **General Information.** The Plan's records are maintained on a calendar year basis. The Plan Number is 509. The Plan is self-administered and is considered a severance plan.

15. **Governing Law.** The Plan is established in the State of Missouri. To the extent federal law does not apply, any questions arising under the Plan will be determined under the laws of the State of Missouri.

16. **Enforceability; Severability.** If a court of competent jurisdiction determines that any provision of the Plan is not enforceable, then such provision shall be enforceable to the maximum extent possible under applicable law, as determined by such court. The invalidity or unenforceability of any provision of the Plan, as determined by a court of competent jurisdiction, will not affect the validity or enforceability of any other provision of the Plan and all other provisions will remain in full force and effect.

17. **Withholding of Taxes.** The applicable Participating Employer may withhold from any benefit payable under the Plan all federal, state, city or other taxes as may be required pursuant to any law, governmental regulation or ruling. The Participant shall pay upon demand by the Company or the Participating Employer any taxes required to be withheld or collected by the Company or the Participating Employer upon the exercise by the Participant of a nonqualified stock option granted under the Company's 1993 Long-Term Executive Compensation Plan or the 2003 Long-Term Executive Compensation Plan or any successor Plan thereto. If the Participant fails to pay any such taxes associated with such exercise upon demand, the Participating Employer shall have the right, but not the obligation, to offset such taxes against any unpaid severance compensation under this Plan.

18. **Code §409A/Taxation.** To the extent applicable, this Plan shall be construed and administered consistently with Section 409A and the regulations and guidance issued thereunder. If the Participant is a "specified employee" as described in Section 409A, on his Separation Date, then any amount to which the Participant would otherwise be entitled during the first six months following his Separation from Service that constitutes nonqualified deferred compensation within the meaning of Section 409A and therefore is not exempt from 409A shall be accumulated and paid in a single lump sum (without interest) on the date which is six (6) months following the Participant's Separation from Service, but only to the extent required by Section 409A(a)(2)(B)(i). Because the requirements of Section 409A are still being developed and interpreted by government agencies, certain issues under Section 409A remain unclear as of the Effective Date of this Plan, and the Company has made a good faith effort to comply with current guidance under Section 409A. Notwithstanding the foregoing or any provision in this Plan to the

contrary, the Company does not warrant or promise compliance with Section 409A of the Code and no Participant or other person shall have any claim against the Company for any good faith effort taken by the Company to comply with Section 409A.

19. **Not an Employment Agreement.** Nothing in the Plan gives an Employee any rights (or imposes any obligations) to continued employment by his or her Participating Employer or other subsidiary of the Company, nor does it give such Participating Employer any rights (or impose any obligations) for the continued performance of duties by the Employee for the Participating Employer or any other subsidiary of the Company.

20. **No Assignment.** The Employee's right to receive payments of severance compensation and benefits under the Plan are not assignable or transferable, whether by pledge, creation of a security interest, or otherwise. In the event of any attempted assignment or transfer contrary to this Section 19, the applicable Participating Employer will have no liability to pay any amount so attempted to be assigned or transferred.

21. **Service of Process.** The Secretary of the Plan Administrator is designated as agent for service of legal process. Service of legal process may be made upon the Secretary of the Plan Administrator at:

H&R Block Management, LLC
Attn: Secretary
One H&R Block Way
Kansas City, Missouri 64105

22. **Statement of ERISA Rights.** As a participant in the Plan, you are entitled to certain rights and protections under ERISA, which provides that all Plan Participants are entitled to:

- (a) examine without charge, at the Plan Administrator's office, all documents governing the Plan and a copy of the latest annual report (Form 5500 Series) filed by the Plan with the U.S. Department of Labor and available at the Public Disclosure Room of the Pension and Welfare Benefit Administration;
- (b) obtain, upon written request to the Plan Administrator, copies of documents governing the operation of the Plan, copies of the latest annual report (Form 5500 Series) and an updated summary plan description. The Plan Administrator may make a reasonable charge for the copies; and
- (c) receive a summary of the Plan's annual financial report if required to be filed for the year. The Plan Administrator is required by law to furnish each participant with a copy of this summary annual report if an annual report is required to be filed for the year.

H&R BLOCK, INC

BOARD MINUTES — SEPTEMBER 3 AND 4, 2008

In addition to creating rights for Plan Participants, ERISA imposes duties upon the people who are responsible for the operation of the Plan. The people who operate your Plan, called “fiduciaries” of the Plan, have a duty to do so prudently and in the interest of you and other Plan Participants and beneficiaries. No one, including your Participating Employer or any other person, may fire you or otherwise discriminate against you in any way to prevent you from obtaining a welfare benefit or exercising your rights under ERISA.

If your claim for a welfare benefit is denied or ignored, in whole or in part, you have the right to know why this was done, to obtain copies of documents relating to the decision without charge, and to appeal any denial, all within certain time schedules.

Under ERISA, there are steps you can take to enforce the above rights. For instance, if you request a copy of plan documents or the latest annual report from the Plan and do not receive them within 30 days, you may file suit in a Federal court. In such a case, the court may require the Plan Administrator to provide the materials to you and pay you up to \$110 a day until you receive the materials, unless the materials were not sent because of reasons beyond the control of the Plan Administrator. If you have a claim for benefits that is denied or ignored, in whole or in part, you may file suit in a state or Federal court. If it should happen that you are discriminated against for asserting your rights, you may seek assistance from the U. S. Department of Labor, or you may file suit in a Federal court. The court will decide who should pay court costs and legal fees. If you are successful, the court may order the person you have sued to pay these costs and fees. If you lose, the court may order you to pay these costs and fees, for example, if it finds your claim is frivolous.

If you have any questions about the Plan, you should contact the Plan Administrator. If you have questions about this statement or about your rights under ERISA, or if you need assistance in obtaining documents from the Plan Administrator, you should contact the nearest office of the Pension and Welfare Benefits Administration, U.S. Department of Labor, listed in your telephone directory or the Division of Technical Assistance and Inquiries, Pension and Welfare Benefits Administration, U.S. Department of Labor, 200 Constitution Avenue N.W., Washington, D.C. 20210. You may also obtain certain publications about your rights and responsibilities under ERISA by calling the publications hotline of the Pension and Welfare Benefits Administration.

EFFECTIVE SEPTEMBER 4, 2008

H&R BLOCK, INC

BOARD MINUTES — SEPTEMBER 3 AND 4, 2008

**Schedule A
Participating Employers**

- Block Financial LLC
- Franchise Partner, Inc.
- H&R Block Bank Corporation
- H&R Block Services, Inc. and its U.S.-based direct and indirect subsidiaries
- H&R Block Management, LLC
- HRB Financial Corporation and its U.S.-based direct and indirect subsidiaries, which subsidiaries include H&R Block Financial Advisors, Inc.
- HRB Products, LLC
- HRB Corporate Enterprises, LLC
- Tax Works, Inc.
- HRB International, LLC
- RSM McGladrey Business Services, Inc.

**Schedule B
Pay Grade/Bands**

Pay Grade / Band	Minimum Years of Service	Maximum Years of Service
Grades 81 and above Band 006 and above	6	18
Grades 60F, 65-80, 139, 143- 145, 185-190 Band 005	3	18
Grades 30-64, 100-135, 105-180, and 298-299 Bands 001-004	1	18

**Schedule C
Financial Advisor Compensation Table**

Projected Annual Earnings	Annualized Compensation	Monthly Compensation
Less than \$100,000	\$ 24,000	\$ 2,000
\$100,000 but under \$200,000	\$ 50,000	\$ 4,166.66
\$100,000 but under \$200,000	\$ 90,000	\$ 7,500
\$100,000 but under \$200,000	\$ 130,000	\$ 10,833.33
\$400,000 – and over	\$ 180,000	\$ 15,000

H&R BLOCK, INC

BOARD MINUTES — SEPTEMBER 3 AND 4, 2008

**CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Russell P. Smyth, Chief Executive Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of H&R Block, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principals;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 8, 2008

/s/ Russell P. Smyth
Russell P. Smyth
Chief Executive Officer
H&R Block, Inc.

**CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Becky S. Shulman, Chief Financial Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of H&R Block, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principals;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 8, 2008

/s/ Becky S. Shulman
Becky S. Shulman
Chief Financial Officer
H&R Block, Inc.

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report of H&R Block, Inc. (the "Company") on Form 10-Q for the period ending October 31, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Russell P. Smyth, Chief Executive Officer of the Company, certify pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Russell P. Smyth

Russell P. Smyth
Chief Executive Officer
H&R Block, Inc.
December 8, 2008

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report of H&R Block, Inc. (the "Company") on Form 10-Q for the period ending October 31, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Becky S. Shulman, Chief Financial Officer of the Company, certify pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Becky S. Shulman

Becky S. Shulman
Chief Financial Officer
H&R Block, Inc.
December 8, 2008