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

# FORM 10-K

(Mark One)

☑ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
**For the fiscal year ended April 30, 2011**

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, Inc.**
(Exact name of registrant as specified in its charter)

| MISSOURI | 44-0607856 |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (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)

**Securities registered pursuant to Section 12(b) of the Act:**

| Title of each class | Name of each exchange on which registered |
|---|---|
| Common Stock, without par value | New York Stock Exchange |

**Securities registered pursuant to Section 12(g) of the Act:**
Common Stock, without par value
(Title of Class)

Indicate by check mark whether the registrant is a well-known seasoned issuer as defined in Rule 405 of the Securities Act. Yes ☑ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ☐ No ☑

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). 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 ☐ (Do not check if a smaller reporting company) | 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 aggregate market value of the registrant's Common Stock (all voting stock) held by non-affiliates of the registrant, computed by reference to the price at which the stock was sold on October 31, 2010, was $3,564,690,812.

Number of shares of the registrant's Common Stock, without par value, outstanding on May 31, 2011: 305,383,646.

**Documents incorporated by reference**

The definitive proxy statement for the registrant's Annual Meeting of Shareholders, to be held September 14, 2011, is incorporated by reference in Part III to the extent described therein.

H&R BLOCK®

# 2011 FORM 10-K AND ANNUAL REPORT

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## INTRODUCTION AND FORWARD-LOOKING STATEMENTS

Specified portions of our proxy statement are listed as "incorporated by reference" in response to certain items. Our proxy statement will be made available to shareholders in August 2011, and will also be available on our website at *www.hrblock.com*.

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 they are 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.

# PART I

## ITEM 1. BUSINESS

### GENERAL DEVELOPMENT OF BUSINESS

H&R Block, Inc. has subsidiaries that provide tax, banking and business and consulting services. Our Tax Services segment provides income tax return preparation, electronic filing and other services and products related to income tax return preparation to the general public primarily in the United States, and also in Canada and Australia. This segment also offers the H&R Block Prepaid Emerald MasterCard® and Emerald Advance lines of credit through H&R Block Bank (HRB Bank), along with other retail banking services. Our Business Services segment consists of RSM McGladrey, Inc. (RSM), a national tax and consulting firm primarily serving mid-sized businesses. Corporate operations include interest income from U.S. passive investments, interest expense on borrowings, net interest margin and gains or losses relating to mortgage loans held for investment, real estate owned, residual interests in securitizations and other corporate expenses, principally related to finance, legal and other support departments.

H&R Block, Inc. was organized as a corporation in 1955 under the laws of the State of Missouri. "H&R Block," "the Company," "we," "our" and "us" are used interchangeably to refer to H&R Block, Inc. or to H&R Block, Inc. and its subsidiaries, as appropriate to the context. A complete list of our subsidiaries can be found in Exhibit 21.

**NEW DEVELOPMENTS** – Historically, refund anticipation loans (RALs) were offered in our US retail tax offices through a contractual relationship with HSBC Holdings plc (HSBC). We purchased a 49.9% participation interest in all RALs obtained through our retail offices. In December 2010, HSBC terminated its contract with us based on restrictions placed on them by their regulator and RALs were not offered in our tax offices this tax season. In connection with the contract termination, we obtained the remaining rights to collect on the outstanding balances of RALs originated in years 2006 and later. The impact of this is discussed in the Tax Services segment results in Item 7.

### FINANCIAL INFORMATION ABOUT INDUSTRY SEGMENTS

See discussion below and in Item 8, note 21 to our consolidated financial statements.

### DESCRIPTION OF BUSINESS

### TAX SERVICES

**GENERAL** – Our Tax Services segment is primarily engaged in providing tax return preparation and related services and products in the U.S. and its territories, Canada, and Australia. Major revenue sources include fees earned for tax preparation services performed at company-owned retail tax offices, royalties from franchise retail tax offices, fees for tax-related services, sales of tax preparation software, online tax preparation fees, refund anticipation checks (RACs), fees from activities related to H&R Block Prepaid Emerald MasterCard®, and interest and fees from Emerald Advance lines of credit (EAs). HRB Bank also offers traditional banking services including checking and savings accounts, individual retirement accounts and certificates of deposit. Segment revenues constituted 77.2% of our consolidated revenues from continuing operations for fiscal year 2011, 76.8% for 2010 and 76.7% for 2009.

Retail income tax return preparation and related services are provided by tax professionals via a system of retail offices operated directly by us or by franchisees. We also offer our services through seasonal offices located inside major retailers.

**TAX RETURNS PREPARED** – We, together with our franchisees, prepared 24.5 million tax returns worldwide during fiscal year 2011, compared to 23.2 million in 2010 and 23.9 million in 2009. We prepared 21.4 million tax returns in the U.S. during fiscal year 2011, up from 20.1 million in 2010 and 21.0 million in 2009. Our U.S. tax returns prepared, including those prepared by our franchisees and those prepared and filed at no charge, for the 2011 tax season constituted 16.4% of an Internal Revenue Service (IRS) estimate of total individual income tax returns filed during the fiscal year 2011 tax season. This compares to 15.6% in the 2010 tax season and 15.8% in the 2009 tax season. See Item 7 for further discussion of changes in the number of tax returns prepared.

**FRANCHISES** – We offer franchises as a way to expand our presence in certain markets. Our franchise arrangements provide us with certain rights designed to protect our brand. Most of our franchisees receive use of our software, access to product offerings and expertise, signs, specialized forms, advertising, initial training and supervisory services, and pay us a percentage, typically approximately 30%, of gross tax return preparation and related service revenues as a franchise royalty in the U.S.

During fiscal years 2011, 2010 and 2009 we sold certain offices to existing franchisees for sales proceeds totaling $65.6 million, $65.7 million and $16.9 million, respectively. The net gain on these transactions totaled $45.1 million, $49.0 million and $14.9 million in fiscal years 2011, 2010 and 2009, respectively. The extent to which we sell company-owned offices will depend upon ongoing analysis regarding the optimal mix of offices for our network, including geographic location, as well as our ability to identify qualified franchisees.

From time to time, we have also acquired the territories of existing franchisees and other tax return preparation businesses, and may continue to do so if future conditions warrant and satisfactory terms can be negotiated. During fiscal year 2009, we acquired the assets and franchise rights of our last major independent franchise operator for an aggregate purchase price of $279.2 million.

**OFFICES** – A summary of our company-owned and franchise offices is as follows:

| April 30, | **2011** | 2010 | 2009 |
|---|---|---|---|
| **U.S. OFFICES:** | | | |
| Company-owned offices | **5,921** | 6,431 | 7,029 |
| Company-owned shared locations(1) | **572** | 760 | 1,542 |
| Total company-owned offices | **6,493** | 7,191 | 8,571 |
| Franchise offices | **4,178** | 3,909 | 3,565 |
| Franchise shared locations(1) | **397** | 406 | 787 |
| Total franchise offices | **4,575** | 4,315 | 4,352 |
| | **11,068** | 11,506 | 12,923 |
| **INTERNATIONAL OFFICES:** | | | |
| Canada | **1,324** | 1,269 | 1,193 |
| Australia | **384** | 374 | 378 |
| | **1,708** | 1,643 | 1,571 |

(1) Shared locations include offices located within Sears or other third-party businesses. In 2009, these locations also included offices within Wal-Mart stores.

We sold 280, 267 and 76 company-owned offices to franchisees in fiscal years 2011, 2010 and 2009, respectively. We closed more than 1,700 offices in fiscal year 2010, including over 1,000 offices in Wal-Mart stores.

The acquisition of our last major independent franchise operator in fiscal year 2009 included a network of over 600 tax offices, nearly two-thirds of which converted to company-owned offices upon the closing of the transaction, as reflected in the table above.

Offices in shared locations at April 30, 2011 and 2010 consist primarily of offices in Sears stores operated as “H&R Block at Sears.” The Sears license agreement expires in July 2012. Offices in shared locations at April 30, 2009 included offices in Wal-Mart stores. The Wal-Mart agreement expired in May 2009.

**SERVICE AND PRODUCT OFFERINGS** – In addition to our retail offices, we offer a number of digital tax preparation alternatives. By offering professional and do-it-yourself tax preparation options through multiple channels, we seek to serve our clients in the manner they choose to be served.

We also offer clients a number of options for receiving their income tax refund, including a check directly from the IRS, an electronic deposit directly to their bank account, a prepaid debit card or a RAC.

**Software Products.** We develop and market H&R Block At Home™ income tax preparation software. H&R Block At Home™ offers a simple step-by-step tax preparation interview, data imports from money management

software, calculations, completion of the appropriate tax forms, error checking and electronic filing. Our software products may be purchased online, through third-party retail stores or direct mail.

**Online Tax Preparation.** We offer a comprehensive range of online tax services, from tax advice to complete professional and do-it-yourself tax return preparation and electronic filing, through our website at *www.hrblock.com*. This website allows clients to prepare their federal and state income tax returns using the H&R Block At Home™ Online Tax Program, access tax tips, advice and tax-related news and use calculators for tax planning.

We participate in the Free File Alliance (FFA). This alliance was created by the tax return preparation industry and the IRS, and allows qualified filers with adjusted gross incomes less than $58,000 to prepare and file their federal return online at no charge. We feel this program provides a valuable public service and increases our visibility with new clients, while also providing an opportunity to offer our state return preparation and other services to these clients.

**RACs.** Refund Anticipation Checks are offered to U.S. clients who would like to either: (1) receive their refund faster and do not have a bank account for the IRS to direct deposit their refund or (2) have their tax preparation fees paid directly out of their refund. A RAC is not a loan and is provided by HRB Bank.

**Emerald Advance Lines of Credit.** EAs are offered to clients in tax offices from late November through early January, currently in an amount not to exceed $1,000. If the borrower meets certain criteria as agreed in the loan terms, the line of credit can be increased and utilized year-round. These lines of credit are offered by HRB Bank.

**H&R Block Prepaid Emerald Mastercard®.** The H&R Block Prepaid Emerald MasterCard® allows a client to receive a tax refund from the IRS directly on a prepaid debit card, or to direct RAC proceeds to the card to avoid high-cost check-cashing fees. The card can be used for everyday purchases, bill payments and ATM withdrawals anywhere MasterCard® is accepted. Additional funds can be added to the card account year-round through direct deposit or at participating retail locations. The H&R Block Prepaid Emerald MasterCard® is issued by HRB Bank.

**Peace of Mind Guarantee.** The Peace of Mind (POM) guarantee is offered to U.S. clients, in addition to our standard guarantee, whereby we (1) represent our clients if audited by the IRS, and (2) assume the cost, subject to certain limits, of additional taxes owed by a client resulting from errors attributable to one of our tax professionals' work. The POM program has a per client cumulative limit of $5,500 in additional taxes assessed with respect to the federal, state and local tax returns we prepared for the taxable year covered by the program.

**Tax Return Preparation Courses.** We offer income tax return preparation courses to the public, which teach students how to prepare income tax returns and provide us with a source of trained tax professionals.

**CashBack Program.** We offer a refund discount (CashBack) program to our customers in Canada. In accordance with current Canadian regulations, if a customer's tax return indicates the customer is entitled to a tax refund, we issue a check to the client in the amount of the refund, less a discount. The client assigns to us the full amount of the tax refund to be issued by the Canada Revenue Agency (CRA) and the refund check is then sent by the CRA directly to us. In accordance with the law, the discount is deemed to include both the tax return preparation fee and the fee for tax refund discounting. This program is financed by short-term borrowings. The number of returns discounted under the CashBack program in fiscal year 2011 was 821,000, compared to 797,000 in 2010 and 782,000 in 2009.

**LOAN PARTICIPATIONS** – Since July 1996, we have been a party to agreements with HSBC and its predecessors to participate in RALs provided by a lending bank to H&R Block tax clients. These agreements were effective through June 2011, but were terminated by HSBC in December 2010. The impact of this is discussed in Item 7, under Tax Services operating results. During fiscal year 2006, we signed new agreements with HSBC in which we obtained the right to purchase a 49.9% participation interest in all RALs obtained through our retail offices. We received a signing bonus from HSBC during fiscal year 2006 in connection with these agreements, which was recorded as deferred revenue and was earned over the contract term. Our purchases of the participation interests were financed through short-term borrowings. Revenue from our participation was calculated as the rate of participation multiplied by the fee paid by the borrower to the lending bank. Our RAL participation revenue was $146.2 million and $139.8 million in fiscal years 2010 and 2009, respectively.

**SEASONALITY OF BUSINESS** – Because most of our clients file their tax returns during the period from January through April of each year, substantially all of our revenues from income tax return preparation and related services and products are earned during this period. As a result, this segment generally operates at a loss through the first eight months of the fiscal year. Peak revenues occur during the applicable tax season, as follows:

| | |
|---|---|
| United States and Canada | January – April |
| Australia | July – October |

HRB Bank's operating results are subject to seasonal fluctuations primarily related to the offering of the H&R Block Prepaid Emerald MasterCard® and Emerald Advance lines of credit, and therefore peak in January and February and taper off through the remainder of the tax season.

**COMPETITIVE CONDITIONS** – We provide both retail and do-it-yourself tax preparation products and services and face substantial competition throughout our businesses. The retail tax services business is highly competitive. There are a substantial number of tax return preparation firms and accounting firms offering tax return preparation services, and we face significant competition from independent tax preparers and CPAs. Certain firms are involved in providing electronic filing services, RALs and RACs to the public. Commercial tax return preparers and electronic filers are highly competitive with regard to price and service and many firms offer services that may include federal and/or state returns at no charge. Additionally, certain tax return preparers were able to offer RALs this tax season while we were not. In terms of the number of offices and personal tax returns prepared and electronically filed in offices, online and via our software, we are one of the largest providers of tax return preparation and electronic filing services in the U.S. We also believe we operate the largest tax return preparation businesses in Canada and Australia.

Do-it-yourself tax preparation options include use of traditional paper forms, digital electronic forms and various forms of digital electronic assistance, including online and desktop software both of which we offer. Our digital tax solutions businesses compete with a number of companies. Based on tax return volumes, Intuit, Inc. is the largest supplier of tax preparation software and online tax preparation services. Many other companies offer digital and online services. Price and marketing competition for digital tax preparation services is intense among value and premium products and many firms offer services that may include federal and/or state returns at no charge.

HRB Bank provides banking services primarily to our tax clients, both retail and digital, and for many of these clients, HRB Bank is the only provider of banking services. HRB Bank does not seek to compete broadly with regional or national retail banks.

**GOVERNMENT REGULATION** – Federal legislation requires income tax return preparers to, among other things, set forth their signatures and identification numbers on all tax returns prepared by them and retain all tax returns prepared by them for three years. Federal laws also subject income tax return preparers to accuracy-related penalties in connection with the preparation of income tax returns. Preparers may be prohibited from further acting as income tax return preparers if they continuously and repeatedly engage in specified misconduct.

The federal government regulates the electronic filing of income tax returns in part by requiring electronic filers to comply with all publications and notices of the IRS applicable to electronic filing. We are required to provide certain electronic filing information to the taxpayer and comply with advertising standards for electronic filers. We are also subject to possible monitoring by the IRS, penalties for improper disclosure or use of income tax return preparation, other preparer penalties and suspension from the electronic filing program.

The Gramm-Leach-Bliley Act and related Federal Trade Commission (FTC) regulations require income tax preparers to adopt and disclose consumer privacy policies, and provide consumers a reasonable opportunity to "opt-out" of having personal information disclosed to unaffiliated third-parties for marketing purposes. Some states have adopted or proposed strict "opt-in" requirements in connection with use or disclosure of consumer information. In addition, the IRS generally prohibits the use or disclosure by tax return preparers of taxpayer information without the prior written consent of the taxpayer.

Certain states have regulations and requirements relating to offering income tax courses. These requirements include licensing, bonding and certain restrictions on advertising.

The IRS published final regulations in September 2010 that: (1) require all tax return preparers to use a Preparer Tax Identification Number (PTIN) as their identifying number on federal tax returns filed after December 31, 2010; (2) require all tax return preparers to be authorized to practice before the IRS as a prerequisite to obtaining or renewing a PTIN; (3) caused all previously issued PTINs to expire on December 31, 2010 unless properly renewed; (4) allow the IRS to conduct tax compliance checks on tax return preparers; (5) define the individuals who are considered "tax return preparers" for the PTIN requirement, and (6) set the amount of the PTIN user registration fee at $64.25 per year. The IRS is also conducting background checks on PTIN applicants. The IRS plans to review the amount of the PTIN user registration fee in the summer of 2011 and may adjust the fee amount. The IRS also published final regulations implementing the individual e-file mandate in March 2011.

Other changes are expected to be finalized in calendar year 2011. These include changes to: (1) establish a new class of practitioners who are authorized to practice before the IRS under Circular 230, called "registered tax return preparers" who would be required to (a) pass a competency examination as a prerequisite to becoming a registered tax return preparer, (b) complete annual continuing professional education requirements, and (c) comply with ethical standards; (2) revise the amount of the enrolled agent application and renewal fee; (3) set the amount of a sponsor fee for qualified continuing professional education sponsors; (4) set the amount of

the competency examination user fee, and (5) set the amount of the registered tax return preparer application and renewal fee. The IRS also issued interim guidance for tax preparers, which includes allowing certain supervised tax preparers to obtain a PTIN and work on returns without passing a competency exam.

As noted above under “Offices,” many of the income tax return preparation offices operating in the U.S. under the name “H&R Block” are operated by franchisees. Our franchising activities are subject to the rules and regulations of the FTC and various state laws regulating the offer and sale of franchises. The FTC and various state laws require us to furnish to prospective franchisees a franchise offering circular containing prescribed information. A number of states in which we are currently franchising regulate the sale of franchises and require registration of the franchise offering circular with state authorities and the delivery of a franchise offering circular to prospective franchisees. We are currently operating under exemptions from registration in several of these states based on our net worth and experience. Substantive state laws regulating the franchisor/franchisee relationship presently exist in a substantial number of states, and bills have been introduced in Congress from time to time that would provide for federal regulation of the franchisor/franchisee relationship in certain respects. The state laws often limit, among other things, the duration and scope of non-competition provisions, the ability of a franchisor to terminate or refuse to renew a franchise and the ability of a franchisor to designate sources of supply. From time to time, we may make appropriate amendments to our franchise offering circular to comply with our disclosure obligations under federal and state law.

We also seek to determine the applicability of all government and self-regulatory organization statutes, ordinances, rules and regulations in the other countries in which we operate (collectively, Foreign Laws) and to comply with these Foreign Laws. In addition, the Canadian government regulates the refund-discounting program in Canada. These laws have not materially affected our international operations.

HRB Bank is subject to regulation, supervision and examination by the Office of Thrift Supervision (OTS), the Federal Reserve and the Federal Deposit Insurance Corporation (FDIC). 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 involving 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. As a savings and loan holding company, H&R Block, Inc. is also subject to regulation by the OTS.

In July 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Reform Act) was signed into law, which contains a comprehensive set of provisions designed to govern the practices and oversight of financial institutions and other participants in the financial markets. The full impact of the Reform Act is difficult to assess because many provisions require federal agencies to adopt implementing regulations. In addition, the Reform Act mandates multiple studies, which could result in additional legislative or regulatory action. In July 2011, the responsibility and authority of the OTS moves to the Office of the Comptroller of the Currency (OCC). The Reform Act, as well as other legislative and regulatory changes, could have a significant impact on us and on our subsidiary, HRB Bank.

See Item 7, “Regulatory Environment” and Item 8, note 20 to the consolidated financial statements for additional discussion of regulatory requirements.

See discussion in Item 1A, “Risk Factors” for additional information.

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## BUSINESS SERVICES

**GENERAL** – Our Business Services segment offers tax, consulting and accounting services and capital markets services to middle-market companies. Segment revenues constituted 22.0% of our consolidated revenues from continuing operations for fiscal year 2011, 22.2% for fiscal year 2010 and 22.0% for fiscal year 2009.

This segment consists primarily of RSM, which provides tax and consulting services in 85 cities and 25 states and offers services in 20 of the 25 top U.S. markets.

Effective July 20, 2010, our Business Services segment acquired certain non-attest assets and liabilities of Caturano & Company, Inc. (Caturano), a Boston-based accounting firm, for an aggregate purchase price of $40.2 million. We expect this acquisition to expand our presence in the Boston market. We made cash payments of $32.6 million, including $29.8 million at closing. Payment of the remaining purchase price is deferred and will be paid over the next 13 years. See additional discussion in Item 8, note 2 to the consolidated financial statements.

From time to time, we have acquired related businesses and may continue to do so if future conditions warrant and satisfactory terms can be negotiated.

**ALTERNATIVE PRACTICE STRUCTURE WITH McGLADREY & PULLEN LLP** – McGladrey & Pullen LLP (M&P) is a limited liability partnership, owned 100% by certified public accountants (CPAs), which provides attest services to middle-market clients.

Under state accountancy regulations, a firm cannot provide attest services unless it is properly licensed which requires that the firm be majority-owned and controlled by licensed CPAs. As such, RSM cannot be a licensed CPA firm and cannot provide attest services. Since 1999, RSM and M&P have operated in what is known as an "alternative practice structure" (APS). Through the APS, RSM and M&P offer clients a full range of attest and non-attest services in compliance with applicable accountancy regulations. In fiscal year 2010, RSM and M&P entered into new agreements related to the operation of the APS.

An administrative services agreement between RSM and M&P obligates RSM to provide M&P with administrative services, information technology, office space, non-professional staff, and other infrastructure in exchange for market rate fees from M&P. In addition, the agreement allows for professional staff to be sub-contracted between RSM and M&P at market rates.

All partners of M&P, with the exception of M&P's Managing Partner, are also managing directors employed by RSM. Approximately 84% of RSM's managing directors are also partners in M&P. Certain other personnel are also employed by both M&P and RSM. M&P partners receive distributions of M&P's earnings in their capacity as partners, as well as compensation from RSM in their capacity as managing directors. Distributions to M&P partners are based on the profitability of M&P and are not capped by the APS. Pursuant to the Governance and Operations Agreement, effective May 1, 2010, the aggregate compensation payable to RSM managing directors by RSM in any given year generally equals 67 percent of the combined profits of M&P and RSM less any amounts paid in their capacity as M&P partners. Historically, RSM followed a similar practice, except that the compensation pool for managing directors was based on 65 percent of combined profits, less amounts paid to M&P partners. In practice, this means that variability in the amounts paid to RSM managing directors under these contracts can cause variability in RSM's operating results. RSM is not entitled to any profits or residual interests of M&P, nor is it obligated to fund losses or capital deficiencies of M&P. Managing directors of RSM have historically participated in stock-based compensation plans of H&R Block. Beginning in fiscal 2011, participation in those plans ceased and was replaced by a non-contributory, non-qualified defined contribution plan.

See additional discussion in Item 8, note 17 to the consolidated financial statements.

**SEASONALITY OF BUSINESS** – Revenues for this segment are largely seasonal in nature, with peak revenues occurring during January through April.

**COMPETITIVE CONDITIONS** – The tax and consulting business is highly competitive. The principal methods of competition are price, service and reputation for quality. There are a substantial number of accounting firms offering similar services at the international, national, regional and local levels. As our focus is on middle-market businesses, our principal competition is with national and regional accounting firms.

**GOVERNMENT REGULATION** – Many of the same federal and state regulations relating to tax preparers and the information concerning tax reform and tax preparer registration discussed previously in the Tax Services segment apply to the Business Services segment as well. RSM is not, and is not eligible to be, a licensed public accounting firm and takes measures to ensure that it does not provide any services that require a CPA license. In addition to tax and consulting services, RSM provides wealth management services and, through a separate subsidiary, capital market services. Accordingly, RSM is subject to state and federal regulations governing investment advisors and securities brokers and dealers.

M&P and other accounting firms (collectively, the "Attest Firms") operate in an alternative practice structure with RSM. Auditor independence rules of the SEC, the Public Company Accounting Oversight Board (PCAOB) and various states apply to the Attest Firms as public accounting firms. In applying its auditor independence rules, the SEC views RSM and its affiliates and the Attest Firms as a single entity and requires that RSM and its affiliates be independent of any SEC audit client of the Attest Firms. The SEC attributes any financial interest or business relationship that RSM or its affiliates has with a client of the Attest Firms as a financial interest or business relationship between the Attest Firms and the client, and applies its auditor independence rules accordingly.

We and the Attest Firms have jointly developed and implemented policies, procedures and controls designed to ensure the Attest Firms' independence is preserved in compliance with applicable SEC regulations and professional responsibilities. These policies, procedures and controls are designed to monitor and prevent violations of applicable independence rules and include, among other things: (1) informing our officers, directors and other members of senior management concerning auditor independence matters; (2) procedures for monitoring securities ownership; (3) communicating with SEC audit clients regarding the SEC's interpretation and application of relevant independence rules and guidelines; and (4) requiring RSM employees to comply with the Attest Firms' independence and relationship policies (including the Attest Firms' independence compliance questionnaire procedures).

See discussion in Item 1A, "Risk Factors" for additional information.

## SERVICE MARKS, TRADEMARKS AND PATENTS

We have made a practice of selling our services and products under service marks and trademarks and of obtaining protection for these by all available means. Our service marks and trademarks are protected by registration in the U.S. and other countries where our services and products are marketed. We consider these service marks and trademarks, in the aggregate, to be of material importance to our business, particularly our business segments providing services and products under the "H&R Block" brand.

We have no registered patents material to our business.

## EMPLOYEES

We have approximately 7,900 regular full-time employees as of April 30, 2011. The highest number of persons we employed during the fiscal year ended April 30, 2011, including seasonal employees, was approximately 107,200.

## AVAILABILITY OF REPORTS AND OTHER INFORMATION

Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports filed with or furnished to the SEC are available, free of charge, through our website at *www.hrblock.com* as soon as reasonably practicable after such reports are electronically filed with or furnished to the SEC. The public may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains a website at *www.sec.gov* containing reports, proxy and information statements and other information regarding issuers who file electronically with the SEC.

Copies of the following corporate governance documents are posted on our website:

- The Amended and Restated Articles of Incorporation of H&R Block, Inc.;
- The Amended and Restated Bylaws of H&R Block, Inc.;
- The H&R Block, Inc. Corporate Governance Guidelines;
- The H&R Block, Inc. Code of Business Ethics and Conduct;
- The H&R Block, Inc. Board of Directors Independence Standards;
- The H&R Block, Inc. Audit Committee Charter;
- The H&R Block, Inc. Governance and Nominating Committee Charter; and
- The H&R Block, Inc. Compensation Committee Charter.

If you would like a printed copy of any of these corporate governance documents, please send your request to the Office of the Secretary, H&R Block, Inc., One H&R Block Way, Kansas City, Missouri 64105.

Information contained on our website does not constitute any part of this report.

## ITEM 1A. RISK FACTORS

An investment in our common stock involves risk, including the risk that the value of an investment may decline or that returns on that investment may fall below expectations. There are a number of significant factors which could cause actual conditions, events or results to differ materially from those described in forward-looking statements, many of which are beyond management's control or its ability to accurately forecast or predict, or could adversely affect our operating results and the value of any investment in our stock.

### Our access to liquidity may be negatively impacted as disruptions in credit markets occur, if credit rating downgrades occur or if we fail to meet certain covenants. Funding costs may increase, leading to reduced earnings.

We need liquidity to meet our off-season working capital requirements, to service debt obligations including refinancing of maturing obligations and for other related activities. Our access to and the cost of liquidity could be negatively impacted in the event of credit-rating downgrades or if we fail to meet existing debt covenants. In addition, events could occur which could increase our need for liquidity above current levels.

If rating agencies downgrade our credit rating, the cost of debt would likely increase and capital market access could decrease or become unavailable. Our unsecured committed line of credit (CLOC) is subject to various covenants, including a covenant requiring that we maintain minimum net worth equal to $650.0 million and a requirement that we reduce the aggregate outstanding principal amount of short-term debt (as defined) to $200.0 million or less for a minimum period of thirty consecutive days during the period from March 1 to June 30 of each year. Violation of a covenant could impair our access to liquidity currently available through the CLOC. If current sources of liquidity were to become unavailable, we would need to obtain additional sources of funding, which may not be possible or may be available under less favorable terms.

### We are subject to potential contingent liabilities related to the loan repurchase obligations of Sand Canyon Corporation, which may result in significant financial losses.

Sand Canyon Corporation (SCC) remains exposed to losses relating to mortgage loans it previously originated. Mortgage loans originated by SCC were sold either as whole-loans to single third-party buyers or in the form of a securitization.

In connection with the securitization and sale of mortgage loans, SCC made certain representations and warranties. These representations and warranties vary based on the nature of the transaction and the buyer's requirements but generally pertain to the ownership of the loan, the property securing the loan and compliance with applicable laws and SCC underwriting guidelines. In the event that there is a breach of a representation and warranty and such breach materially and adversely affects the value of a mortgage loan, SCC may be obligated to repurchase a loan or otherwise indemnify certain parties for losses incurred as a result of loan liquidation. In some instances, H&R Block, Inc. was required to guarantee SCC's obligations related to breaches of representations and warranties. These representations and warranties and corresponding repurchase obligations generally are not subject to stated limits or a stated term, but would be subject to statutes of limitations applicable to the contractual provisions.

SCC records a liability for contingent losses relating to representation and warranty claims by estimating loan repurchase and indemnification obligations for both known claims and projections of future claims. To the extent that future valid claim volumes exceed current estimates, or the value of mortgage loans and residential home prices decline, future losses may be greater than these estimates and those differences may be significant. See Item 8, note 18 to the consolidated financial statements for additional information.

### SCC is subject to potential investigations and lawsuits stemming from its discontinued mortgage operations, which may result in significant financial losses.

Although SCC terminated its mortgage loan origination activities and sold its loan servicing business during fiscal year 2008, it remains subject to investigations, claims and lawsuits pertaining to its loan origination and servicing activities prior to such termination and sale. The costs involved in defending against and/or resolving these investigations, claims and lawsuits may be substantial in some instances and the ultimate resulting liability is difficult to predict. In the current non-prime mortgage environment, the number and frequency of investigations, claims and lawsuits has increased over historical experience and is likely to continue at increased levels. In the event of unfavorable outcomes, the amount 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.

### Failure to comply with laws and regulations that protect our customers' personal and financial information could result in significant fines, penalties and damages and could harm our brand and reputation.

Privacy concerns relating to the disclosure of consumer financial information have drawn increased attention from federal and state governments. The IRS generally prohibits the use or disclosure by tax return preparers of taxpayers' information without the prior written consent of the taxpayer. In addition, other regulations require financial service providers to adopt and disclose consumer privacy policies and provide consumers with a reasonable opportunity to "opt-out" of having personal information disclosed to unaffiliated third-parties for marketing purposes. Breaches of our clients' privacy may occur. To the extent the measures we have taken prove to be insufficient or inadequate, we may become subject to litigation or administrative sanctions, which could result in significant fines, penalties or damages and harm to our brand and reputation.

In addition, changes in these federal and state regulatory requirements could result in more stringent requirements and could result in a need to change business practices, including how information is disclosed. Establishing systems and processes to achieve compliance with these new requirements may increase costs and/or limit our ability to pursue certain business opportunities.

### The lines of business in which we operate face substantial litigation, and such litigation may damage our reputation or result in material liabilities and losses.

We, and/or our subsidiaries, have been named, from time to time, as a defendant in various legal actions, including arbitrations, class actions and other litigation arising in connection with our various business activities. Adverse outcomes related to litigation could result in substantial damages and could cause our earnings to decline. Negative public opinion can also result from our actual or alleged conduct in such claims, possibly damaging our reputation and could cause the market price of our stock to decline. See Item 3, "Legal Proceedings" for additional information.

### We are subject to operational risk and risks associated with our controls and procedures, which may result in incurring financial and reputational losses.

There is a risk of loss resulting from inadequate or failed processes or systems, theft or fraud. These can occur in many forms including, among others, errors, business interruptions arising from natural disasters or other events, inadequate design and development of products and services, inappropriate behavior of or misconduct by our employees or those contracted to perform services for us, and vendors that do not perform in accordance with their contractual agreements. These events could potentially result in financial losses or other damages. We utilize internally developed processes, internal and external information and technological systems to manage our operations. We are exposed to risk of loss resulting from breaches in the security or other failures of these processes and systems. Our ability to recover or replace our major operational systems and processes could have a significant impact on our core business operations and increase our risk of loss due to disruptions of normal operating processes and procedures that may occur while re-establishing or implementing information and transaction systems and processes. As our businesses are seasonal, our systems must be capable of processing high volumes during peak season. Therefore, service interruptions resulting from system failures could negatively impact our ability to serve our customers, which in turn could damage our brand and reputation, or adversely impact our profitability. Additionally, due to the seasonality of our tax business, we employ a substantial amount of seasonal tax professionals on an annual basis. If we were unable to hire a sufficient amount of seasonal tax professionals, it could negatively impact our ability to serve customers, which in turn could damage our brand and reputation, or adversely impact our profitability.

We also face the risk that the design of our controls and procedures may prove to be inadequate or that our controls and procedures may be circumvented, thereby causing delays in detection of errors or inaccuracies in data and information. It is possible that any lapses in the effective operations of controls and procedures could materially affect earnings or harm our reputation. Lapses or deficiencies in internal control over financial reporting could also be material to us.

### Our businesses may be adversely affected by difficult economic conditions, particularly if unemployment levels do not improve or continue to increase.

The difficult economic conditions we are currently experiencing are frequently characterized by higher unemployment levels and declining consumer and business spending. Poor economic conditions may negatively affect demand and pricing for our services. Higher unemployment levels, especially within client segments we serve, may result in clients no longer being required to file tax returns, electing not to file tax returns, or clients seeking lower cost preparation and filing alternatives. Continued higher unemployment levels may negatively impact our ability to increase tax preparation clients.

In addition to mortgage loans, we also extend secured and unsecured credit to other customers, including EAs to our tax clients. We may incur significant losses on credit we extend, which in turn could reduce our profitability.

### Economic conditions that negatively affect housing prices and the job market may result in deterioration in credit quality of our loan portfolio primarily held by HRB Bank, and such deterioration could have a negative impact on our business and profitability.

The overall credit quality of mortgage loans held for investment is impacted by the strength of the U.S. economy and local economic conditions, including residential housing prices. Economic trends that negatively affect housing prices and the job market could result in deterioration in credit quality of our mortgage loan portfolio and a decline in the value of associated collateral. Future interest rate resets could also lead to increased delinquencies in our mortgage loans held for investment. Trends in the residential mortgage loan market continue to reflect high loan delinquencies and lower collateral values. As a result, we recorded loan loss provisions totaling $35.6 million, $47.8 million and $63.9 million during fiscal years 2011, 2010 and 2009, respectively.

Our loan portfolio is concentrated in the states of Florida, California, New York and Wisconsin, which represented 20%, 14%, 17% and 8%, respectively, of our total mortgage loans held for investment at April 30, 2011. No other state held more than 5% of our loan balances. If adverse trends in the residential mortgage loan market continue, particularly in geographic areas in which we own a greater concentration of mortgage loans, we could incur additional significant loan loss provisions.

Mortgage loans purchased from SCC represent 62% of total loans held for investment at April 30, 2011. These loans have experienced higher delinquency rates than other loans in our portfolio, and may expose us to greater risk of credit loss.

## TAX SERVICES

### Government initiatives that simplify tax return preparation or expedite refunds could reduce the need for our services as a third-party tax return preparer. In addition, changes in government regulations or processes regarding the preparation and filing of tax returns and funding of tax refunds may increase our operating costs or reduce our revenues.

Many taxpayers seek assistance from paid tax return preparers such as us not only because of the level of complexity involved in the tax return preparation and filing process, but also because of paid tax return preparers' ability to expedite refund proceeds under certain circumstances. From time to time, government officials propose measures seeking to simplify the preparation and filing of tax returns or to provide additional assistance with respect to preparing and filing such tax returns or expediting refunds. During tax season 2011, the U.S. Department of the Treasury (the Treasury) introduced a prepaid debit card pilot program designed to facilitate the refund process. HRB Bank provides this service as well through its H&R Block Prepaid Emerald MasterCard®. Additionally, during tax season 2011, the IRS increased its emphasis on a process to allow taxpayers to allocate their refund to multiple accounts. The adoption or expansion of any measures that significantly simplify tax return preparation, expedite refunds or otherwise reduce the need for a third-party tax return preparer could reduce demand for our services, causing our revenues or results of operations to decline.

Governmental regulations and processes affect how we provide services to our clients. Changes in these regulations and processes may require us to make corresponding changes to our client service systems and procedures. The degree and timing of changes in governmental regulations and processes may impair our ability to serve our clients in an effective and cost-efficient manner or reduce demand for our services, resulting in the loss of a significant number of clients, causing our revenues or results of operations to decline.

Certain regulators have alleged that some of our competitors are lending tax preparation fees when they issue products similar to a RAC to their clients. An adverse ruling in this area could have a material impact on our offering of RACs resulting in the loss of a significant number of clients, causing our revenues or results of operations to decline.

### Increased competition for tax preparation clients in our retail offices and our online and software channels could adversely affect our current market share and profitability, and could limit our ability to grow our client base. Offers of free tax preparation services could adversely affect our revenues and profitability.

We provide both retail and do-it-yourself tax preparation products and services and face substantial competition throughout our businesses. The retail tax services business is highly competitive. There are a substantial number of tax return preparation firms and accounting firms offering tax return preparation services. Many tax return preparation firms and many firms not otherwise in the tax return preparation business are involved in providing electronic filing and other related services to the public, and certain firms provide RALs and RACs. Commercial tax return preparers and electronic filers are highly competitive with regard to price and service, and many firms offer services that may include federal and/or state returns at no charge. Do-it-yourself tax preparation options include use of traditional paper forms, digital electronic forms and various forms of digital electronic assistance, including online and desktop software, both of which we offer. Our digital tax solutions businesses also compete with in-office tax preparation services and a number of online and software companies, primarily on the basis of price and functionality.

Federal and certain state taxing authorities currently offer, or facilitate the offer of, tax return preparation and electronic filing options to taxpayers at no charge. In addition, many of our direct competitors offer certain free online tax preparation and electronic filing options. We have free offerings as well and prepared 767,000, 810,000 and 788,000 federal income tax returns in fiscal years 2011, 2010 and 2009, respectively, at no charge as part of the FFA. In addition, we have free online tax preparation offerings and also provided free preparation of Federal 1040EZ forms in fiscal year 2011. Government tax authorities and direct competitors may elect to expand free offerings in the future. Intense price competition, including offers of free service, could result in a loss of market share, lower revenues or lower margins.

See tax returns prepared statistics included in Item 7, under "Tax Services."

### The elimination of the IRS debt indicator has caused federal and state regulators to scrutinize the RAL underwriting practices of third-party financial institutions that provide RALs.

In August 2010, the Internal Revenue Service (IRS) announced that, as of the beginning of the 2011 tax season, it would no longer furnish the debt indicator (DI), to tax preparers or financial institutions. The DI is an underwriting tool that lenders have historically used when considering whether to loan money to taxpayers who applied for a RAL, which is a short term loan, secured by the taxpayer's federal tax refund.

In December 2010, HSBC terminated its contract with us to provide RALs in our retail tax offices based on restrictions placed on HSBC by its regulators due to the DI no longer being available. As a result, RALs were not offered in our retail tax offices in the 2011 tax season. Subsequently, two other banks offering RALs during the 2011 tax season through our competitors announced that due to regulatory concerns they will not be offering RALs next tax season. Additionally, a third bank offering RALs during the 2011 tax season through our competitors announced that it was requesting an administrative hearing regarding a notice it had received from its regulator that its practice of originating RALs without the DI is "unsafe and unsound" and has recently filed a lawsuit in federal court against its regulator. Based on these developments and the overall limited amount of banks that offer RALs, there can be no assurances as to the availability of RALs in our retail tax offices in the future.

Termination of the contract with HSBC and our inability to secure a RAL originator in the future could continue to have adverse effects on our operating results, including declines in tax returns prepared as a result of clients seeking alternate preparers who may be able to offers RALs, to the extent prior RAL clients do not purchase a RAC or change their refund disbursement elections. A decline in clients could have other adverse impacts, including increased credit losses on loan balances with those clients.

**We are subject to extensive government regulation, including banking rules and regulations. If we fail to comply with applicable banking laws, rules and regulations, we could be subject to disciplinary actions, damages, penalties or restrictions that could significantly harm our business.**

The OTS can, among other things, censure, fine, issue cease-and-desist orders or suspend or expel a bank or any of its officers or employees with respect to banking activities. Similarly, the attorneys general of each state could bring legal action on behalf of the citizens of the various states to ensure compliance with local laws.

HRB Bank is subject to various regulatory capital requirements administered by the OTS. Failure to meet minimum capital requirements may trigger actions by regulators that, if undertaken, could have a direct material effect on HRB Bank, and potentially us, as HRB Bank's holding company. HRB Bank must meet specific capital guidelines involving quantitative measures of assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. A bank's capital amounts and classification are also subject to qualitative judgments by the regulators about the strength of components of its capital, risk-weightings of assets, off-balance sheet transactions and other factors. 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. In addition to these minimum ratio requirements, HRB Bank is required to continually maintain a 12.0% minimum leverage ratio.

In addition, the OTS may deem certain products offered by HRB Bank, including EAs, to be "unsafe and unsound" and thus require us to discontinue offering such products. To the extent such products are instrumental in attracting clients to our offices for tax preparation services, we could experience a significant loss of clients should such products be discontinued. This could cause our revenues or profitability to decline. See Item 8, note 20 to the consolidated financial statements for additional discussion of regulatory capital requirements and classifications.

**Recent legislative and regulatory reforms may have a significant impact on our business, results of operations and financial condition.**

In July 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Reform Act) was signed into law, which contains a comprehensive set of provisions designed to govern the practices and oversight of financial institutions and other participants in the financial markets.

The full impact of the Reform Act is difficult to assess because many provisions require federal agencies to adopt implementing regulations. In addition, the Reform Act mandates multiple studies, which could result in additional legislative or regulatory action. The Reform Act, as well as other legislative and regulatory changes, could have a significant impact on us and on our subsidiary, HRB Bank, by, for example, requiring us to change our business practices, requiring us to meet more stringent capital, liquidity and leverage ratio requirements, limiting our ability to pursue business opportunities, imposing additional costs on us, limiting fees we can charge for services, impacting the value of our assets, or otherwise adversely affecting our businesses. Specific provisions of the Reform Act include:

- changes to the thrift supervisory structure as the responsibility and authority of the OTS moves to the OCC in July 2011;
- changes which may require the Company, as a thrift holding company, to meet regulatory capital, liquidity, leverage or other standards;
- regulation of interchange fees charged by payment card issuers for transactions in which a person uses a debit or general-use prepaid card, and enforcement of a new statutory requirement that such fees be reasonable and proportional to the actual cost of the transaction to the issuer; and

- establishment of a Consumer Financial Protection Bureau with broad authority to implement new consumer protection regulations.

The effect of the Reform Act on our business and operations could be significant, depending upon final implementation of regulations, the actions of our competitors and the behavior of other marketplace participants. In addition, we may be required to invest significant management time and resources to address the various provisions of the Reform Act and the numerous regulations that are required to be issued under it. The Reform Act and any related legislation or regulations could have a material adverse effect on our business, results of operations and financial condition.

## BUSINESS SERVICES

### RSM receives a significant portion of its revenues from clients that are also clients of the Attest Firms. A termination of the alternative practice structure between RSM and the Attest Firms could result in a material loss of revenue to RSM and an impairment of our investment in RSM.

Under the alternative practice structure, RSM and the Attest Firms market their services and provide services to a significant number of common clients under a common brand – McGladrey. RSM also provides operational and administrative support services to the Attest Firms, including information technology, office space, non-professional staff, and other infrastructure in exchange for market rate fees from M&P. If the RSM/Attest Firms relationship under the alternative practice structure were terminated, RSM could lose key employees and clients. In addition, RSM may not be able to recoup its costs associated with the infrastructure used to provide the operational and administrative support services to the Attest Firms. This in turn could result in reduced revenue, increased costs and reduced earnings and, if sufficiently significant, impairment of our investment in RSM.

### The RSM alternative practice structure involves relationships with Attest Firms that are subject to regulatory restrictions and other constraints. Failure to comply with these restrictions, or operational difficulties or litigation involving the Attest Firms, could damage our brand reputation, lead to reduced earnings and impair our investment in RSM.

RSM’s relationship with the Attest Firms requires compliance with applicable regulations related to the practice of public accounting and auditor independence. Many of RSM’s clients are also clients of the Attest Firms. In addition, the relationship with the Attest Firms and the common brand closely links RSM and the Attest Firms. If the Attest Firms encounter regulatory or independence issues pertaining to the alternative practice structure or if significant litigation arose involving the Attest Firms or their services, such developments could have an adverse effect on our reputation and the mutual benefits of our relationship. In addition, a significant judgment or settlement of a claim against an Attest Firm could (1) impair the Attest Firm’s, particularly M&P’s, ability to meet its payment obligations under various service arrangements with RSM, (2) impair the profitability of the APS, (3) impact RSM’s ability to attract and retain clients and quality professionals, (4) have a significant indirect adverse effect on RSM, as the Attest Firm partners are also RSM employees and (5) divert significant management attention. This, in turn, could result in reduced revenue and earnings and, if significant, impairment of our investment in RSM.

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## ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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## ITEM 2. PROPERTIES

Most of our tax offices, except those in shared locations, are operated under leases throughout the U.S. Our Canadian executive offices are located in a leased office in Calgary, Alberta. Our Canadian tax offices are operated under leases throughout Canada. Our Australian executive offices are located in a leased office in Thornleigh, New South Wales. Our Australian tax offices are operated under leases throughout Australia. HRB Bank is headquartered and its single branch location is located in our corporate headquarters.

RSM’s executive offices are located in leased offices in Bloomington, Minnesota. Its administrative offices are located in leased offices in Davenport, Iowa. RSM also leases office space throughout the U.S.

We own our corporate headquarters, which is located in Kansas City, Missouri. All current leased and owned facilities are in good repair and adequate to meet our needs.

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## ITEM 3. LEGAL PROCEEDINGS

### RAL Litigation

We have been named in multiple lawsuits as defendants in litigation regarding our refund anticipation loan program in past years. All of those lawsuits have been settled or otherwise resolved, except for one.

The sole remaining case is a putative class action styled *Sandra J. Basile, et al. v. H&R Block, Inc., et al.*, April Term 1992 Civil Action No. 3246 in the Court of Common Pleas, First Judicial District Court of Pennsylvania, Philadelphia County, instituted on April 23, 1993. The plaintiffs allege inadequate disclosures with respect to the RAL product and assert claims for violation of consumer protection statutes, negligent misrepresentation, breach of fiduciary duty, common law fraud, usury, and violation of the Truth In Lending Act. Plaintiffs seek unspecified actual and punitive damages, injunctive relief, attorneys' fees and costs. A Pennsylvania class was certified, but later decertified by the trial court in December 2003. An appellate court subsequently reversed the decertification decision. We are appealing the reversal. We have not concluded that a loss related to this matter is probable nor have we accrued a loss contingency related to this matter. Plaintiffs have not provided a dollar amount of their claim and we are not able to estimate a possible range of loss. We believe we have meritorious defenses to this case and intend to defend it vigorously. There can be no assurances, however, as to the outcome of this case or its impact on our consolidated results of operations.

### Express IRA Litigation

We have been named defendants in lawsuits regarding our former Express IRA product. All of those lawsuits have been settled or otherwise resolved, except for one.

The one remaining case was filed on January 2, 2008 by the Mississippi Attorney General in the Chancery Court of Hinds County, Mississippi First Judicial District (Case No. G 2008 6 S 2) and is styled *Jim Hood, Attorney for the State of Mississippi v. H&R Block, Inc., H&R Block Financial Advisors, Inc*., *et al.* The complaint alleges fraudulent business practices, deceptive acts and practices, common law fraud and breach of fiduciary duty with respect to the sale of the product in Mississippi and seeks equitable relief, disgorgement of profits, damages and restitution, civil penalties and punitive damages. We are not able to estimate a possible range of loss. We believe we have meritorious defenses to the claims in this case, and we intend to defend this case vigorously, but there can be no assurances as to its outcome or its impact on our consolidated results of operations.

Although we sold H&R Block Financial Advisors, Inc. (HRBFA) effective November 1, 2008, we remain responsible for any liabilities relating to the Express IRA litigation, among other things, through an indemnification agreement. A portion of our accrual is related to these indemnity obligations.

### RSM McGladrey Litigation

RSM EquiCo, Inc. (RSM Equico), its parent and certain of its subsidiaries and affiliates, are parties to a class action filed on July 11, 2006 and styled *Do Right's Plant Growers, et al. v. RSM EquiCo, Inc., et al. (the "RSM Parties"),* Case No. 06 CC00137, in the California Superior Court, Orange County. The complaint contains allegations relating to business valuation services provided by RSM EquiCo, including allegations of fraud, conversion and unfair competition. Plaintiffs seek unspecified actual and punitive damages, in addition to pre-judgment interest and attorneys' fees. On March 17, 2009, the court granted plaintiffs' motion for class certification on all claims. To avoid the cost and inherent risk associated with litigation, the parties have reached an agreement in principle to settle this case, subject to approval by the California Superior Court. The settlement would require a maximum payment of $41.5 million, although the actual cost of the settlement depends on the number of valid claims submitted by class members. The defendants believe they have meritorious defenses to the claims in this case and, if for any reason the settlement is not approved, they will continue to defend the case vigorously. Although we have recorded a liability for expected losses, there can be no assurance regarding the outcome of this matter.

On December 7, 2009, a lawsuit was filed in the Circuit Court of Cook County, Illinois (2010-L-014920) against M&P, RSM and H&R Block styled *Ronald R. Peterson ex rel. Lancelot Investors Fund, L.P., et al. v. McGladrey & Pullen LLP, et al.* The case was removed to the United States District Court for the Northern District of Illinois on December 28, 2009 (Case No. 1:10-CV-00274). The complaint, which was filed by the trustee for certain bankrupt investment funds, seeks unspecified damages and asserts claims against RSM for vicarious liability and alter ego liability and against H&R Block for equitable restitution relating to audit work performed by M&P. The amount claimed in this case is substantial. On November 3, 2010, the court dismissed the case against all defendants in its entirety with prejudice. The trustee has filed an appeal to the Seventh Circuit Court of Appeals with respect to the claims against M&P and RSM. The appeal remains pending.

RSM and M&P operate in an alternative practice structure ("APS"). Accordingly, certain claims and lawsuits against M&P could have an impact on RSM. More specifically, any judgments or settlements arising from claims and lawsuits against M&P that exceed its insurance coverage could have a direct adverse effect on M&P's operations. Although RSM is not responsible for the liabilities of M&P, significant M&P litigation and claims could impair the profitability of the APS and impair the ability to attract and retain clients and quality professionals. This could, in turn, have a material effect on RSM's operations and impair the value of our investment in RSM. There is no assurance regarding the outcome of any claims or litigation involving M&P.

## 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 and HRB remain subject to investigations, claims and lawsuits pertaining to its mortgage business activities that occurred prior to such termination and sale. These investigations, claims and lawsuits include actions by state attorneys general, other state and federal 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, fraud, and violations of securities laws, the Truth in Lending Act, Equal Credit Opportunity Act and the Fair Housing Act. Given the 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 and thus cannot be reasonably estimated. In the event of unfavorable outcomes, the amounts that may be required to pay in the discharge of liabilities or settlements could be substantial and could have a material 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) styled *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. In November 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 (1) advance notice to the Massachusetts Attorney General and (2) if the Attorney General objects to foreclosure, approval by the court. An appeal of the preliminary injunction was denied. A portion of our loss contingency accrual is related to this matter for the amount of loss that we consider probable and estimable. We do not believe losses in excess of our accrual would be material to our financial statements, although it is possible that our losses could exceed the amount we have accrued. We and SCC believe we have meritorious defenses to the claims presented and intend to defend them vigorously. There can be no assurances, however, as to the outcome of this matter or its impact on our consolidated results of operations.

On October 15, 2010, the Federal Home Loan Bank of Chicago filed a lawsuit in the Circuit Court of Cook County, Illinois (Case No. 10CH45033) styled *Federal Home Loan Bank of Chicago v. Bank of America Funding Corporation, et al.* against multiple defendants, including various SCC related entities and H&R Block, Inc. related entities, arising out of Federal Home Loan Bank's (FHLB's) purchase of mortgage-backed securities. Plaintiff asserts claims for rescission and damages under state securities law and for common law negligent misrepresentation in connection with its purchase of two securities originated and securitized by SCC. These two securities had a total initial principal amount of approximately $50 million, of which approximately $42 million remains outstanding. We have not concluded that a loss related to this matter is probable nor have we established a loss contingency related to this matter. We believe the claims in this case are without merit and we intend to defend them vigorously. There can be no assurances, however, as to its outcome or its impact on our consolidated results of operations.

## Other Claims and Litigation

We have been named in several wage and hour class action lawsuits throughout the country, including *Alice Williams v. H&R Block Enterprises LLC*, Case No.RG08366506 (Superior Court of California, County of Alameda, filed January 17, 2008) (alleging improper classification of office managers in California); *Arabella Lemus v. H&R Block Enterprises LLC, et al.,* Case No. CGC-09-489251 (United States District Court, Northern District of California, filed June 9, 2009) (alleging failure to timely pay compensation to tax professionals in California and to include itemized information on wage statements); *Delana Ugas v. H&R Block Enterprises LLC, et al.,* Case No. BC417700 (United States District Court, Central District of California, filed July 13, 2009) (alleging failure to compensate tax professionals in California and eighteen other states for all hours worked and to provide meal periods); and *Barbara Petroski v. H&R Block Eastern Enterprises, Inc., et al.,* Case No. 10-CV-00075 (United States District Court, Western District of Missouri, filed January 25, 2010) (alleging failure to compensate tax professionals nationwide for off-season training). A class was certified in the *Lemus* case in December 2010 (consisting of tax professionals who worked in company-owned offices in California from 2007 to 2010) and in the *Williams* case in March 2011 (consisting of office managers who worked in company-owned offices in California from 2004 to 2011). A conditional class was certified in the *Petroski* case in March 2011 (consisting of tax professionals who were not compensated for certain training courses occurring on or after April 15, 2007).

The plaintiffs in the wage and hour class action lawsuits seek actual damages, pre-judgment interest and attorneys' fees, in addition to statutory penalties under California and federal law, which could equal up to 30 days

of wages per tax season for class members who worked in California. A portion of our loss contingency accrual is related to these lawsuits for the amount of loss that we consider probable and estimable. For those wage and hour class action lawsuits for which we are able to estimate a range of possible loss, the current estimated range is $0 to $70 million in excess of the accrued liability related to those matters. This estimated range of possible loss is based upon currently available information and is subject to significant judgment and a variety of assumptions and uncertainties. The matters underlying the estimated range will change from time to time, and actual results may vary significantly from the current estimate. Because this estimated range does not include matters for which an estimate is not possible, the range does not represent our maximum loss exposure for the wage and hour class action lawsuits. We believe we have meritorious defenses to the claims in these lawsuits and intend to defend them vigorously. The amounts claimed in these matters are substantial in some instances and the ultimate liability with respect to these matters is difficult to predict. There can be no assurances as to the outcome of these cases or their impact on our consolidated results of operations, individually or in the aggregate.

In October 2010, we signed a definitive merger agreement to acquire all of the outstanding shares of 2SS Holdings, Inc. ("2SS"), developer of TaxACT digital tax preparation solutions, for $287.5 million in cash. In May 2011, the United States Department of Justice (the "DOJ") filed a civil antitrust lawsuit in the U.S. district court in Washington, D.C., (Case No. 1:11-cv-00948) against H&R Block and 2SS styled *United States v. H&R Block, Inc., 2SS Holdings, Inc., and TA IX L.P.,* to block our proposed acquisition of 2SS. There are no assurances that the DOJ's lawsuit will be resolved in our favor or that the transaction will be consummated.

In addition, 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. We believe we have meritorious defenses to each of these investigations, claims and lawsuits, and we are defending or intend to defend them vigorously. The amounts claimed in these matters are substantial in some instances, however, the ultimate liability with respect to such matters 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 have a material impact on our consolidated results of operations.

We are also 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 the preparation of customers' income tax returns, the fees charged customers for various products and services, 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 impact on our consolidated results of operations.

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## PART II

## ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

H&R Block's common stock is traded on the New York Stock Exchange (NYSE) under the symbol HRB. On May 31, 2011, there were 22,982 shareholders of record and the closing stock price on the NYSE was $16.20 per share.

The quarterly information regarding H&R Block's common stock prices and dividends appears in Item 8, note 22 to our consolidated financial statements.

A summary of our securities authorized for issuance under equity compensation plans as of April 30, 2011 is as follows:

(in 000s, except per share amounts)

| | Number of securities to be issued upon exercise of options warrants and rights | Weighted-average exercise price of outstanding options warrants and rights | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column) |
|---|---|---|---|
| Equity compensation plans approved by security holders | **10,650** | **$ 18.71** | **11,476** |
| Equity compensation plans not approved by security holders | – | – | – |
| Total | **10,650** | **$ 18.71** | **11,476** |

The remaining information called for by this item relating to "Securities Authorized for Issuance under Equity Compensation Plans" is reported in Item 8, note 14 to our consolidated financial statements.

A summary of our purchases of H&R Block common stock during the fourth quarter of fiscal year 2011 is as follows:

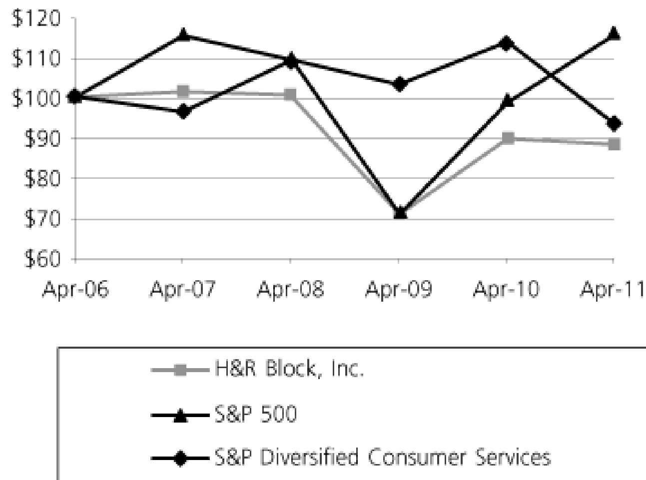
(in 000s, except per share amounts)

| | 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 Dollar Value of Shares that May be Purchased Under the Plans or Programs(2) |
|---|---|---|---|---|
| February 1 – February 28 | **1** | **$ 12.67** | **–** | **$ 1,371,957** |
| March 1 – March 31 | **–** | **$ 14.70** | **–** | **$ 1,371,957** |
| April 1 – April 30 | **2** | **$ 17.31** | **–** | **$ 1,371,957** |

(1) All share purchases above were purchased in connection with funding employee income tax withholding obligations arising upon the exercise of stock options or the lapse of restrictions on restricted shares.

(2) 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 through June 2012.

**PERFORMANCE GRAPH –** The following graph compares the cumulative five-year total return provided shareholders on H&R Block, Inc.'s common stock relative to the cumulative total returns of the S&P 500 index and the S&P Diversified Commercial & Professional Services index. An investment of $100, with reinvestment of all dividends, is assumed to have been made in our common stock and in each of the indexes on April 30, 2006, and its relative performance is tracked through April 30, 2011.




## ITEM 6. SELECTED FINANCIAL DATA

We derived the selected consolidated financial data presented below as of and for each of the five years in the period ended April 30, 2011, from our audited consolidated financial statements. Results of operations of fiscal years 2011, 2010 and 2009 are discussed in Item 7. Results of operations for fiscal years 2008 and 2007 included significant losses of our discontinued mortgage businesses. The data set forth below should be read in conjunction with Item 7 and our consolidated financial statements in Item 8.

(in 000s, except per share amounts)

| April 30, | **2011** | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| Revenues | **$ 3,774,296** | $ 3,874,332 | $ 4,083,577 | $ 4,086,630 | $ 3,710,362 |
| Net income from continuing operations | **419,405** | 488,946 | 513,055 | 445,947 | 369,460 |
| Net income (loss) | **406,110** | 479,242 | 485,673 | (308,647) | (433,653) |
| Basic earnings (loss) per share: | | | | | |
| Net income from continuing operations | **$ 1.35** | $ 1.47 | $ 1.53 | $ 1.37 | $ 1.14 |
| Net income (loss) | **1.31** | 1.44 | 1.45 | (0.95) | (1.35) |
| Diluted earnings (loss) per share: | | | | | |
| Net income from continuing operations | **$ 1.35** | $ 1.46 | $ 1.53 | $ 1.35 | $ 1.13 |
| Net income (loss) | **1.31** | 1.43 | 1.45 | (0.95) | (1.33) |
| Total assets | **$ 5,207,961** | $ 5,234,318 | $ 5,359,722 | $ 5,623,425 | $ 7,544,050 |
| Long-term debt | **1,049,754** | 1,035,144 | 1,032,122 | 1,031,784 | 537,134 |
| Dividends per share[(1)] | **$ 0.45** | $ 0.75 | $ 0.59 | $ 0.56 | $ 0.53 |

[(1)]Amounts represent dividends declared. In fiscal year 2010, the dividend payable in July 2010 was declared in April.

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## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Our subsidiaries provide tax preparation, retail banking and various business advisory and consulting services. We are the only major company offering a full range of software, online and in-office tax preparation solutions to individual tax clients.

## OVERVIEW

A summary of our fiscal year 2011 results is as follows:

- Revenues for the fiscal year were $3.8 billion, down 2.6% from prior year results.
- Diluted earnings per share from continuing operations decreased 7.5% from the prior year to $1.35.
- U.S. tax returns prepared by us increased 6.5% from the prior year primarily due to strong results in our retail offices related to a free Federal 1040 EZ offer during the first half of the season as well as improved results during the second half. Online results also improved due to enhancements to our client interface and improved traffic to our website.
- Revenues in our Tax Services segment decreased 2.1% from the prior year, primarily due to the sale of 280 company-owned offices to franchisees and a decline in revenues from RAL participations, which were partially offset by higher RAC fees.
- Pretax income for the Tax Services segment decreased $99.9 million, or 11.5%, due primarily to a $34.3 million increase in bad debt expense, goodwill impairment of $22.7 million and litigation charges of $15.0 million.
- Pretax income for the Business Services segment decreased $9.7 million, or 16.5%, primarily due to lower revenues and higher litigation expenses, partially offset by a goodwill impairment charge recorded in the prior year.

| Consolidated Results of Operations Data | | | (in 000s, except per share amounts) |
|---|---|---|---|
| Year Ended April 30, | **2011** | 2010 | 2009 |
| **REVENUES:** | | | |
| Tax Services | **$ 2,912,361** | $ 2,975,252 | $ 3,132,077 |
| Business Services | **829,794** | 860,349 | 897,809 |
| Corporate and eliminations | **32,141** | 38,731 | 53,691 |
| | **$ 3,774,296** | $ 3,874,332 | $ 4,083,577 |
| **INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE TAXES:** | | | |
| Tax Services | **$ 767,498** | $ 867,362 | $ 927,048 |
| Business Services | **49,003** | 58,714 | 96,097 |
| Corporate and eliminations | **(139,476)** | (141,941) | (183,775) |
| | **677,025** | 784,135 | 839,370 |
| Income taxes | **257,620** | 295,189 | 326,315 |
| Net income from continuing operations | **419,405** | 488,946 | 513,055 |
| Net loss of discontinued operations | **(13,295)** | (9,704) | (27,382) |
| Net income | **$ 406,110** | $ 479,242 | $ 485,673 |
| **BASIC EARNINGS (LOSS) PER SHARE:** | | | |
| Net income from continuing operations | **$ 1.35** | $ 1.47 | $ 1.53 |
| Net loss of discontinued operations | **(0.04)** | (0.03) | (0.08) |
| Net income | **$ 1.31** | $ 1.44 | $ 1.45 |
| **DILUTED EARNINGS (LOSS) PER SHARE:** | | | |
| Net income from continuing operations | **$ 1.35** | $ 1.46 | $ 1.53 |
| Net loss of discontinued operations | **(0.04)** | (0.03) | (0.08) |
| Net income | **$ 1.31** | $ 1.43 | $ 1.45 |

## RESULTS OF OPERATIONS

### TAX SERVICES

This segment primarily consists of our income tax preparation businesses — retail, online and software. This segment includes our tax operations in the U.S. and its territories, Canada, and Australia. Additionally, this segment includes the product offerings and activities of HRB Bank that primarily support the tax network, RACs, our prior participations in RALs, and our commercial tax business, which provides tax preparation software to CPAs and other tax preparers.

**Tax Services – Operating Statistics**

(in 000s, except average fee)

| Year Ended April 30, | 2011 | 2010 | 2009 |
|---|---|---|---|
| **TAX RETURNS PREPARED :** | | | |
| United States: | | | |
| Company-owned operations | **9,168** | 9,182 | 10,231 |
| Franchise operations | **5,588** | 5,064 | 4,936 |
| Total retail operations | **14,756** | 14,246 | 15,167 |
| Software | **2,201** | 2,193 | 2,309 |
| Online | **3,722** | 2,893 | 2,775 |
| Free File Alliance | **767** | 810 | 788 |
| Total digital tax solutions | **6,690** | 5,896 | 5,872 |
| Total U.S. operations | **21,446** | 20,142 | 21,039 |
| International operations (1) | **3,055** | 3,019 | 2,864 |
| | **24,501** | 23,161 | 23,903 |
| **NET AVERAGE FEE PER U.S. TAX RETURN PREPARED – RETAIL OPERATIONS (2):** | | | |
| Company-owned operations | **$ 189.73** | $ 197.42 | $ 196.16 |
| Franchise operations | **171.86** | 174.32 | 169.04 |
| | **$ 182.96** | $ 189.21 | $ 187.36 |

(1) In fiscal year 2011, the end of the Canadian tax season was extended from April 30 to May 2, 2011. Tax returns prepared in our international operations in fiscal year 2011 includes 51,000 returns in both company-owned and franchise offices which were accepted by the client on May 1 or 2. The revenues related to these returns will be recognized in fiscal year 2012.

(2) Calculated as net tax preparation fees divided by retail tax returns prepared.

**Tax Services – Financial Results**

(dollars in 000s)

| Year Ended April 30, | 2011 | 2010 | 2009 |
|---|---|---|---|
| Tax preparation fees | **$ 1,914,876** | $ 1,991,989 | $ 2,154,822 |
| Royalties | **304,194** | 275,559 | 255,536 |
| Fees from refund anticipation checks | **181,661** | 87,541 | 100,021 |
| Interest income on Emerald Advance | **94,300** | 77,882 | 91,010 |
| Fees from Emerald Card activities | **90,451** | 99,822 | 98,031 |
| Fees from Peace of Mind guarantees | **78,413** | 79,888 | 78,205 |
| Loan participation fees and related revenue | **17,151** | 146,160 | 139,770 |
| Other | **231,315** | 216,411 | 214,682 |
| Total revenues | **2,912,361** | 2,975,252 | 3,132,077 |
| Compensation and benefits: | | | |
| Field wages | **692,561** | 713,792 | 757,835 |
| Other wages | **133,183** | 111,326 | 117,291 |
| Benefits and other compensation | **162,544** | 175,904 | 167,005 |
| | **988,288** | 1,001,022 | 1,042,131 |
| Occupancy and equipment | **385,130** | 410,709 | 412,335 |
| Marketing and advertising | **242,538** | 233,748 | 226,483 |
| Bad debt | **139,059** | 104,716 | 112,032 |
| Depreciation and amortization | **90,672** | 93,424 | 79,543 |
| Supplies | **42,300** | 49,781 | 52,438 |
| Goodwill impairment | **22,700** | – | 2,188 |
| Other | **279,277** | 263,556 | 292,795 |
| Gains on sale of tax offices | **(45,101)** | (49,066) | (14,916) |
| Total expenses | **2,144,863** | 2,107,890 | 2,205,029 |
| Pretax income | **$ 767,498** | $ 867,362 | $ 927,048 |
| Pretax margin | **26.4%** | 29.2% | 29.6% |

**FISCAL 2011 COMPARED TO FISCAL 2010 –** Tax Services' revenues decreased $62.9 million, or 2.1%, compared to the prior year. Tax preparation fees decreased $77.1 million, or 3.9%, due primarily to the sale of company-owned offices to franchisees and the loss of certain clients as a result of not having a RAL offering in our tax offices this year. Although we believe we gained clients through the free Federal EZ filing we began offering this year, that increase did not have a significant impact on our revenues.

Royalties increased $28.6 million, or 10.4%, primarily due to the conversion of 280 company-owned offices into franchises.

Fees earned on RACs increased $94.1 million, or 107.5%, primarily due to an increase in the number of RACs issued as a portion of our clients chose to receive their refunds via RAC, as an alternative to a RAL.

RALs were historically offered to our clients by HSBC. In December 2010, HSBC terminated its contract with us based on restrictions placed on HSBC by its regulator and, therefore, RALs were not offered this tax season. Current year revenues of $17.2 million include the recognition of net deferred fees from HSBC. This compares with revenues resulting from loans participations and related fees in the prior year of $146.2 million.

Interest income earned on EAs increased $16.4 million, or 21.1%, over the prior year primarily due to an increase in loan volume, which resulted from offering the product to a wider client base.

Other revenue increased $14.9 million, or 6.9%, primarily due to an increase in online revenues.

Total expenses increased $37.0 million, or 1.8%, compared to the prior year. Compensation and benefits decreased $12.7 million, or 1.3%, primarily due to lower commission-based wages due to conversions to franchise offices, reduced headcount and related payroll taxes. This decline was partially offset by severance costs and related payroll taxes of $27.4 million. Occupancy costs declined $25.6 million, or 6.2%, due to office closures and cost-saving initiatives. Bad debt expense increased $34.3 million, or 32.8%, primarily due to increased volumes on EAs, as well as a decline in tax returns prepared for those clients. During the current year, we recorded a $22.7 million impairment of goodwill in our RedGear reporting unit, as discussed in Item 8, note 9 to the consolidated financial statements. Other expenses increased $15.7 million, or 6.0%, primarily due to incremental litigation expenses recorded in the current year.

Pretax income for fiscal year 2011 decreased $99.9 million, or 11.5%, from 2010. As a result of the declines in revenues and higher expenses, primarily bad debt expense and goodwill impairment, pretax margin for the segment decreased to 26.4% from 29.2% in fiscal year 2010.

**FISCAL 2010 COMPARED TO FISCAL 2009 –** Tax Services' revenues decreased $156.8 million, or 5.0%, compared to fiscal year 2009. Tax preparation fees decreased $162.8 million, or 7.6%, due to a 10.3% decrease in U.S. retail tax returns prepared in company-owned offices, partially offset by a 0.6% increase in the net average fee per U.S. retail tax return. Adjusting for the effect of company-owned offices sold to franchisees during fiscal year 2010, the decline in tax returns prepared in company-owned offices was 6.7% from fiscal 2009 to 2010. The 6.7% decrease in U.S. retail tax returns prepared in company-owned offices is primarily due to the following factors:

- Tax returns filed with the IRS declined 1.7%.
- Lower employment levels disproportionately impacted our key client segments. Fourth quarter 2009 unemployment levels ranged from 15-30%, far in excess of national unemployment levels for key client segments.
- We closed certain under-performing offices and exited offices serving clients in Wal-Mart locations. We believe that tax returns prepared declined by approximately 1% (net of client retention through other office locations) as a result of these office closures.

Royalties increased $20.0 million, or 7.8%, due to the conversion of 267 company-owned offices into franchises, partially offset by a decline in tax returns prepared in existing franchise offices.

Interest income on EAs decreased $13.1 million, or 14.4%. This decline was primarily a result of lower loan volumes due to these lines of credit only being offered to prior year tax clients in fiscal year 2010, while being offered to both prior and new clients in fiscal year 2009.

Total expenses decreased $97.1 million, or 4.4%, compared to fiscal year 2009. Total compensation and benefits decreased $41.1 million, or 3.9%, primarily as a result of lower commission-based wages due to the decline in the number of tax returns prepared. Bad debt expense decreased $7.3 million, or 6.5%, primarily as a result of lower EA and RAL volumes, and more restrictive underwriting criteria. Depreciation and amortization expenses increased $13.9 million, or 17.5%, primarily as a result of amortization of intangible assets, related to the November 2008 acquisition of our last major independent franchise operator. Other expenses decreased $31.4 million, or 10.7%, primarily as a result of lower legal expenses. During fiscal year 2010 we recognized gains of $49.1 million on the sale of certain company-owned offices to franchisees, compared to $14.9 million in fiscal year 2009.

Pretax income for fiscal year 2010 decreased $59.7 million, or 6.4%, from 2009. As a result of the declines in revenues, pretax margin for the segment decreased from 29.6% in fiscal year 2009, to 29.2% in fiscal year 2010.

## BUSINESS SERVICES

This segment consists of RSM McGladrey, Inc. (RSM), a national firm offering tax, consulting and accounting services, and capital market services to middle-market companies.

**Business Services – Operating Results**

(dollars in 000s)

| Year Ended April 30, | 2011 | 2010 | 2009 |
|---|---|---|---|
| Tax services | $ 465,406 | $ 454,551 | $ 484,825 |
| Business consulting | 243,189 | 260,339 | 246,724 |
| Accounting services | 38,903 | 47,706 | 52,496 |
| Capital markets | 12,243 | 11,855 | 18,220 |
| Reimbursed expenses | 19,910 | 22,929 | 19,863 |
| Other | 50,143 | 62,969 | 75,681 |
| Total revenues | 829,794 | 860,349 | 897,809 |
| Compensation and benefits | 552,775 | 574,901 | 588,866 |
| Occupancy | 48,274 | 49,154 | 49,070 |
| Depreciation | 18,970 | 21,122 | 22,626 |
| Marketing and advertising | 20,914 | 18,960 | 23,803 |
| Amortization of intangible assets | 11,563 | 11,639 | 13,018 |
| Litigation | 39,317 | 19,968 | 6,712 |
| Other | 88,978 | 105,891 | 97,617 |
| Total expenses | 780,791 | 801,635 | 801,712 |
| Pretax income | $ 49,003 | $ 58,714 | $ 96,097 |
| Pretax margin | 5.9% | 6.8% | 10.7% |

**FISCAL 2011 COMPARED TO FISCAL 2010** – Business Services' revenues decreased $30.6 million, or 3.6%, from the prior year. Tax services revenues increased primarily as a result of the acquisition of Caturano, as discussed in Item 8, note 2 to the consolidated financial statements. Business consulting revenues declined $17.2 million, or 6.6%, primarily due to a decline in services performed on a large multi-year engagement in our consulting practice.

Other revenues declined $12.8 million, or 20.4%, primarily as a result of a reduction in management fees received related to the new administrative services agreement with M&P, as discussed in Item 8, note 17 to the consolidated financial statements.

Total expenses decreased $20.8 million, or 2.6%, from the prior year. Compensation and benefits decreased $22.1 million, or 3.8%, primarily due to a reduction of costs directly related to the large multi-year consulting engagement discussed above and reduced spend on employee insurance benefits. Litigation expenses increased $19.3 million, or 96.9%, over the prior year. Other expenses declined $16.9 million, or 16.0%, primarily due to an impairment of goodwill recorded in the prior year.

Pretax income for the year ended April 30, 2011 of $49.0 million compares to $58.7 million in the prior year. Pretax margin for the segment decreased to 5.9% from 6.8% in fiscal year 2010, primarily due to litigation costs.

**FISCAL 2010 COMPARED TO FISCAL 2009 –** Business Services' revenues for fiscal year 2010 decreased $37.5 million, or 4.2%, from fiscal year 2009. Revenues from core tax, consulting and accounting services decreased $21.4 million, or 2.7%, from fiscal year 2009. Tax and accounting services revenues decreased $30.3 million and $4.8 million, respectively, primarily due to decreases in chargeable hours and pressures on billable rates. Business consulting revenues increased $13.6 million, or 5.5%, primarily due to a large engagement in our operational consulting practice.

Continued weak economic conditions in recent years have severely reduced investment and transaction activity. As a result, revenues from our capital markets business have been declining severely, including a decline of $6.4 million, or 34.9%, from fiscal year 2009. As noted below, we recorded an impairment of goodwill associated with this business during fiscal year 2010.

Other revenue declined $12.7 million, or 16.8%, primarily due to lower management fee revenues and interest income received from M&P.

Total expenses were essentially flat compared to fiscal year 2009. Compensation and benefits decreased $14.0 million, or 2.4%, primarily due to headcount reductions driven by reduced client demand. Marketing and advertising costs decreased $4.8 million, or 20.3%, primarily due to fewer sponsorships and lower advertising costs. Litigation expenses increased $13.3 million from fiscal year 2009. Other expenses increased $8.3 million primarily due to a $15.0 million impairment of goodwill at RSM EquiCo, as discussed in Item 8, note 9 to the consolidated financial statements.

Pretax income for the year ended April 30, 2010 of $58.7 million compares to $96.1 million in fiscal year 2009. Pretax margin for the segment decreased from 10.7% in fiscal year 2009, to 6.8% in fiscal year 2010, primarily due to poor results in our capital markets business and a reduction of revenue in our core businesses.

## CORPORATE, ELIMINATIONS AND INCOME TAXES ON CONTINUING OPERATIONS

Corporate operating losses include interest income from U.S. passive investments, interest expense on borrowings, net interest margin and gains or losses relating to mortgage loans held for investment, real estate owned, residual interests in securitizations and other corporate expenses, principally related to finance, legal and other support departments.

**Corporate – Operating Results** (in 000s)

| Year Ended April 30, | 2011 | 2010 | 2009 |
|---|---|---|---|
| Interest income on mortgage loans held for investment | $ 24,693 | $ 31,877 | $ 46,396 |
| Other | 7,448 | 6,854 | 7,295 |
| Total revenues | 32,141 | 38,731 | 53,691 |
| Interest expense | 84,288 | 79,929 | 92,945 |
| Provision for loan losses | 35,567 | 47,750 | 63,897 |
| Compensation and benefits | 49,463 | 53,607 | 48,973 |
| Other, net | 2,299 | (614) | 31,651 |
| Total expense | 171,617 | 180,672 | 237,466 |
| Pretax loss | $ (139,476) | $ (141,941) | $ (183,775) |

## FISCAL YEAR 2011 COMPARED TO FISCAL YEAR 2010

Interest income earned on mortgage loans held for investment decreased $7.2 million, or 22.5%, from the prior year, primarily as a result of declining rates and non-performing loans. Our provision for loan losses decreased $12.2 million, or 25.5%, from the prior year as a result of the continued run-off of our portfolio.

### Income Taxes on Continuing Operations

Our effective tax rate for continuing operations was 38.1% for the fiscal year ended April 30, 2011, compared to 37.6% in the prior year. This increase resulted from a decline in gains from investments in company-owned life insurance assets which are not subject to tax, an increase in the state effective tax rate and other favorable net discrete adjustments booked in the current year compared to unfavorable adjustments recorded in the prior year.

## FISCAL YEAR 2010 COMPARED TO FISCAL YEAR 2009

Interest income earned on mortgage loans held for investment for the fiscal year ended April 30, 2010 decreased $14.5 million, or 31.3%, from fiscal year 2009, primarily as a result of non-performing loans. Interest expense decreased $13.0 million, or 14.0%, due to lower funding costs related to our mortgage loan portfolio and lower corporate borrowings. Our provision for loan losses decreased $16.1 million from fiscal year 2009.

Other expenses declined $32.3 million primarily due to gains of $9.0 million on residual interests in fiscal year 2010, compared to impairments of $3.1 million recorded in fiscal year 2009. Additionally, we transferred liabilities relating to previously retained insurance risk to a third-party, and recorded a gain of $9.5 million in fiscal year 2010.

### Income Taxes on Continuing Operations

Our effective tax rate for continuing operations was 37.6% for the fiscal year ended April 30, 2010, compared to 38.9% in fiscal year 2009. Our effective tax rates declined from fiscal year 2009 due to a reduction in our valuation allowance related to tax-planning strategies and favorable tax benefits related to investment gains on our corporate owned life insurance investments.

## DISCONTINUED OPERATIONS

Sand Canyon Corporation ("SCC", previously known as Option One Mortgage Corporation) ceased originating mortgage loans in December of 2007 and, in April 2008, sold its servicing assets and discontinued its remaining operations. The sale of servicing assets did not include the sale of any mortgage loans. SCC retained contingent liabilities that arose from the operations of SCC prior to its disposal, including certain mortgage loan repurchase obligations, contingent liabilities associated with litigation and related claims, lease commitments, and employee termination benefits. SCC also retained residual interests in certain mortgage loan securitization transactions prior to cessation of its origination business. The net loss from discontinued operations totaled $13.3 million, $9.7 million and $27.4 million for the fiscal years ended April 30, 2011, 2010 and 2009, respectively.

In connection with the securitization and sale of mortgage loans, SCC made certain representations and warranties. In the event that there is a breach of a representation and warranty and such breach materially and adversely affects the value of a mortgage loan, SCC may be obligated to repurchase a loan or otherwise indemnify certain parties for losses incurred as a result of loan liquidation.

SCC has recorded a liability for estimated contingent losses related to representation and warranty claims as of April 30, 2011, of $126.3 million, which represents SCC's best estimate of the probable loss that may occur. Losses on valid claims totaled $12.2 million, $18.2 million and $36.4 million for fiscal years 2011, 2010 and 2009, respectively. These amounts were recorded as reductions of our loan repurchase liability. During the current year, payments totaling $49.8 million were made under an indemnity agreement dated April 2008 with a specific counterparty in exchange for a full and complete release of such party's ability to assert representation and warranty claims. These payments were also recorded as a reduction in our loan repurchase liability. The indemnity agreement was given as part of obtaining the counterparty's consent to SCC's sale of its mortgage servicing business in 2008. We have no remaining payment obligations under this indemnity agreement.

While SCC uses the best information available to it in estimating its liability, assessing the likelihood that claims will be asserted in the future and estimating probable losses is inherently difficult and requires considerable management judgment. Although net losses on settled claims since May 1, 2008 have been within initial loss estimates, to the extent that the volume of asserted claims, the level of valid claims, the counterparties asserting claims, the nature of claims, or the value of residential home prices differ in the future from current estimates, future losses may be greater than the current estimates and those differences may be significant. See additional discussion in Item 8, note 18 to the consolidated financial statements.

## CRITICAL ACCOUNTING ESTIMATES

We consider the estimates discussed below to be critical to understanding our financial statements, as they require the use of significant judgment and estimation in order to measure, at a specific point in time, matters that are inherently uncertain. Specific risks for these critical accounting estimates are described in the following paragraphs. We have reviewed and discussed each of these estimates with the Audit Committee of our Board of Directors. For all of these estimates, we caution that future events rarely develop precisely as forecasted and estimates routinely require adjustment and may require material adjustment.

See Item 8, note 1 to our consolidated financial statements, which discusses accounting estimates we have selected when there are acceptable alternatives and new or proposed accounting standards that may affect our financial reporting in the future.

**ALLOWANCE FOR LOAN LOSSES** – The principal amount of mortgage loans held for investment totaled $573.0 million at April 30, 2011. We are exposed to the risk that borrowers may not repay amounts owed to us when they become contractually due. We record an allowance representing our estimate of credit losses inherent in the portfolio of loans held for investment at the balance sheet date. Determination of our allowance for loan losses is considered a critical accounting estimate because loss provisions can be material to our operating results, projections of loan delinquencies and related matters are inherently subjective, and actual losses are impacted by factors outside of our control including economic conditions, unemployment rates and residential home prices.

We record a loan loss allowance for loans less than 60 days past due on a pooled basis. The aggregate principal balance of these loans totaled $304.3 million at April 30, 2011, and the portion of our allowance for loan losses allocated to these loans totaled $11.2 million. In estimating our loan loss allowance for these loans, 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). Frequency rates are based primarily on historical migration analysis of loans to delinquent status. Severity rates are based primarily on recent broker quotes or appraisals of collateral. Because of imprecision and uncertainty inherent in developing estimates of future credit losses, in particular during periods of rapidly declining collateral values or increasing delinquency rates, our estimation process includes development of ranges of possible outcomes. Ranges were developed by stressing initial estimates of both frequency and severity rates. Stressing of frequency and severity assumptions is intended to model deterioration in credit quality that is difficult to predict during declining economic conditions. Future deterioration in credit quality may exceed our modeled assumptions.

Mortgage loans held for investment include loans originated by our affiliate, SCC, and purchased by HRB Bank. We have greater exposure to loss with respect to this segment of our loan portfolio as a result of historically higher delinquency rates. Therefore, we assign higher frequency rate assumptions to SCC-originated loans compared with loans originated by other third-party banks as we consider estimates of future losses. At April 30, 2011 our weighted-average frequency assumption was 9.4% for SCC-originated loans compared to 2.8% for remaining loans in the portfolio.

Loans 60 days past due are considered impaired and are reviewed individually. We record loss estimates typically based on the value of the underlying collateral. Our specific loan loss allowance for these impaired loans reflected an average loss severity of 43% at April 30, 2011. The aggregate principal balance of impaired loans

totaled $162.3 million at April 30, 2011, and the portion of our allowance for loan losses allocated to these loans totaled $69.8 million.

Modified loans that meet the definition of a troubled debt restructuring (TDR) are also considered impaired and are reviewed individually. We record impairment equal to the difference between the principal balance of the loan and the present value of expected future cash flows discounted at the loan's effective interest rate. However, if we assess that foreclosure of a modified loan is probable, we record impairment based on the estimated fair value of the underlying collateral. The aggregate principal balance of TDR loans totaled $106.3 million at April 30, 2011, and the portion of our allowance for loan losses allocated to these loans totaled $11.1 million.

The loan loss allowance as a percent of mortgage loans held for investment was 16.1% at April 30, 2011, compared to 13.7% at April 30, 2010. The increase during the current year is primarily as a result of declining collateral values due to lower residential home prices and modeled expectations for future loan delinquencies in the portfolio. The residential mortgage industry has experienced significant adverse trends for an extended period. If adverse trends continue for a sustained period or at rates worse than modeled by us, we may be required to record additional loan loss provisions, and those losses may be significant.

Determining the allowance for loan losses for loans held for investment requires us to make estimates of losses that are highly uncertain and requires a high degree of judgment. If our underlying assumptions prove to be inaccurate, the allowance for loan losses could be insufficient to cover actual losses. Our mortgage loan portfolio is a static pool, as we are no longer originating or purchasing new mortgage loans, and we believe that factor, over time, will limit variability in our loss estimates.

**MORTGAGE LOAN REPURCHASE OBLIGATION** – In connection with the securitization and sale of loans, SCC made certain representations and warranties, including, but not limited to, representations relating to matters such as ownership of the loan, validity of lien securing the loan, and the loan's compliance with SCC's underwriting criteria. Representations and warranties in whole loan sale transactions to institutional investors included a "knowledge qualifier" which limits SCC liability for borrower fraud to those instances where SCC had knowledge of the fraud at the time the loans were sold. In the event that there is a breach of a representation and warranty and such breach materially and adversely affects the value of a mortgage loan, SCC may be obligated to repurchase a loan or otherwise indemnify certain parties for losses incurred as a result of loan liquidation. Generally, these representations and warranties are not subject to a stated term, but would be subject to statutes of limitation applicable to the contractual provisions.

SCC estimates losses relating to representation and warranty claims by estimating loan repurchase and indemnification obligations on both known claims and projections of future claims. Projections of future claims are based on an analysis that includes a combination of reviewing repurchase demands and actual defaults and loss severities, inquiries from various third-parties, the terms and provisions of related agreements and the historical rate of repurchase and indemnification obligations related to breaches of representations and warranties. SCC's methodology for calculating this liability considers the likelihood that individual counterparties will assert future claims.

SCC recorded a liability for estimated contingent losses related to representation and warranty claims of $126.3 million as of April 30, 2011. Actual losses charged against this reserve during fiscal year 2011 totaled $61.9 million, which included payments totaling $49.8 million made under an indemnity agreement dated April 2008 with a specific counterparty in exchange for a full and complete release of such party's ability to assert representation and warranty claims. The recorded liability represents SCC's estimate of losses from future claims where assertion of a claim and a related contingent loss are both deemed probable. Because the rate at which future claims may be deemed valid and actual loss severity rates may differ significantly from historical experience, SCC is not able to estimate reasonably possible loss outcomes in excess of its current accrual. A 1% increase in both assumed validity rates and loss severities would result in losses beyond SCC's accrual of approximately $16 million. This sensitivity is hypothetical and is intended to provide an indication of the impact of a change in key assumptions on the representations and warranties liability. In reality, changes in one assumption may result in changes in other assumptions, which may or may not counteract the sensitivity.

While SCC uses the best information available to it in estimating its liability, assessing the likelihood that claims will be asserted in the future and estimating probable losses are inherently difficult to estimate and require considerable management judgment. Although net losses on settled claims since May 1, 2008 have been within initial loss estimates, to the extent that the volume of asserted claims, the level of valid claims, the counterparties asserting claims, the nature of claims, or the value of residential home prices differ in the future from current estimates, future losses may be greater than the current estimates and those differences may be significant.

See Item 8, note 18 to our consolidated financial statements.

**LITIGATION** – It is our policy to routinely assess the likelihood of any adverse judgments or outcomes related to legal matters, as well as ranges of probable losses. A determination of the amount of the reserves required, if any,

for these contingencies is made after analysis of each known issue and an analysis of historical experience. Therefore, we have recorded reserves related to certain legal matters for which we believe it is probable that a loss will be incurred and the range of such loss can be estimated. With respect to other matters, we have concluded that a loss is only reasonably possible or remote, or is not estimable and, therefore, no liability is recorded.

Assessing the likely outcome of pending litigation, including the amount of potential loss, if any, is highly subjective. Our judgments regarding likelihood of loss and our estimates of probable loss amounts may differ from actual results due to difficulties in predicting the outcome of jury trials, arbitration hearings, settlement discussions and related activity, predicting the outcome of class certification actions and various other uncertainties. Due to the number of claims which are periodically asserted against us, and the magnitude of damages sought in those claims, actual losses in the future may significantly exceed our current estimates.

See Item 8, note 19 to our consolidated financial statements.

**VALUATION OF GOODWILL** – The evaluation of goodwill for impairment is a critical accounting estimate due both to the magnitude of our goodwill balances, and the judgment involved in determining the fair value of our reporting units. Goodwill balances totaled $846.2 million as of April 30, 2011 and $840.4 million as of April 30, 2010.

We test goodwill and other indefinite-life intangible assets for impairment annually or more frequently if events occur or circumstances change which would, more likely than not, reduce the fair value of a reporting unit below its carrying value. Our goodwill impairment analysis is based on a discounted cash flow approach and market comparables. This analysis, at the reporting unit level, requires significant management judgment with respect to revenue and expense forecasts, anticipated changes in working capital and the selection and application of an appropriate discount rate. Changes in projections or assumptions could materially affect our estimate of reporting unit fair values. The use of different assumptions would increase or decrease estimated discounted future operating cash flows and could affect our conclusions regarding the existence or amount of potential impairment. Finally, strategic changes in our outlook regarding reporting units or intangible assets may alter our valuation approach and could result in changes to our conclusions regarding impairment.

Future estimates of fair value may be adversely impacted by declining economic conditions. In addition, if future operating results of our reporting units are below our current modeled expectations, fair value estimates may decline. Any of these factors could result in future impairments, and those impairments could be significant.

We recorded a goodwill impairment of $22.7 million related to our RedGear reporting unit within our Tax Services segment in the third quarter of fiscal year 2011, leaving a remaining goodwill balance of approximately $14 million. Revenues for this reporting unit have been below our estimates. Poor results in future years could result in further impairment.

We recorded a goodwill impairment of $15.0 million related to our RSM EquiCo reporting unit within our Business Services segment in the third quarter of fiscal year 2010, leaving a remaining goodwill balance of $14.3 million. Continued poor results for this reporting unit could result in further impairment.

See Item 8, note 9 to our consolidated financial statements.

**INCOME TAXES** – Income taxes are accounted for using the asset and liability approach under U.S. GAAP. We calculate our current and deferred tax provision for the fiscal year based on estimates and assumptions that could differ from the actual results reflected in income tax returns filed during the applicable calendar year. Adjustments based on filed returns are recorded in the appropriate periods when identified. We file a consolidated federal tax return on a calendar year basis, generally in the second fiscal quarter of the subsequent year.

We record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. We have considered taxable income in carry-back periods, historical and forecasted earnings, future taxable income, the mix of earnings in the jurisdictions in which we operate, and tax planning strategies in determining the need for a valuation allowance against our deferred tax assets. Determination of a valuation allowance for deferred tax assets requires that we make judgments about future matters that are not certain, including projections of future taxable income and evaluating potential tax-planning strategies. To the extent that actual results differ from our current assumptions, the valuation allowance will increase or decrease. In the event we were to determine we would not be able to realize all or part of our deferred tax assets in the future, an adjustment to the deferred tax assets would be charged to earnings in the period in which we make such determination. Likewise, if we later determine it is more likely than not that the deferred tax assets would be realized, we would reverse the applicable portion of the previously provided valuation allowance.

The income tax laws of jurisdictions in which we operate are complex and subject to different interpretations by the taxpayer and applicable government taxing authorities. Income tax returns filed by us are based on our interpretation of these rules. The amount of income taxes we pay is subject to ongoing audits by federal, state and foreign tax authorities, which may result in proposed assessments, including assessments of interest and/or penalties. Our estimate for the potential outcome for any uncertain tax issue is highly subjective and based on our best judgments. Actual results may differ from our current judgments due to a variety of factors, including changes

in law, interpretations of law by taxing authorities that differ from our assessments, changes in the jurisdictions in which we operate and results of routine tax examinations. We believe we have adequately provided for any reasonably foreseeable outcome related to these matters. However, our future results may include favorable or unfavorable adjustments to our estimated tax liabilities in the period the assessments are made or resolved, or when statutes of limitation on potential assessments expire. As a result, our effective tax rate may fluctuate on a quarterly basis.

**REVENUE RECOGNITION** – We have many different revenue sources, each governed by specific revenue recognition policies. Our revenue recognition policies can be found in Item 8, note 1 to our consolidated financial statements.

## FINANCIAL CONDITION

**CAPITAL RESOURCES AND LIQUIDITY** – Our sources of capital include cash from operations, cash from customer deposits, 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 mid-January.

Given the likely availability of a number of liquidity options discussed herein, including borrowing capacity under our CLOC, we believe, that in the absence of any unexpected developments, our existing sources of capital at April 30, 2011 are sufficient to meet our operating needs.

These comments should be read in conjunction with the consolidated balance sheets and consolidated statements of cash flows included in Item 8.

(in 000s)

| Year Ended April 30, | **2011** | 2010 | 2009 |
|---|---|---|---|
| Net cash provided by (used in): | | | |
| Operating activities | **$ 512,503** | $ 587,469 | $ 1,024,439 |
| Investing activities | **(110,157)** | 31,353 | 5,560 |
| Financing activities | **(534,391)** | (481,118) | (40,233) |
| Effect of exchange rates on cash | **5,844** | 11,678 | – |
| Net change in cash and cash equivalents | **$ (126,201)** | $ 149,382 | $ 989,766 |

**CASH FROM OPERATING ACTIVITIES** – Cash provided by operations, which consists primarily of cash received from customers, decreased $75.0 million from fiscal year 2010. Cash payments for representation and warranty obligations of our discontinued mortgage business totaled $61.9 million in fiscal year 2011, compared to $18.4 million in fiscal year 2010 and $36.5 million in fiscal year 2009.

**Restricted Cash.** We hold certain cash balances that are restricted as to use. Cash and cash equivalents – restricted totaled $48.4 million at April 30, 2011, and primarily consisted of cash held by our captive insurance subsidiary that will be used to pay claims.

**CASH FROM INVESTING ACTIVITIES** – Changes in cash provided by investing activities primarily relate to the following:

**Purchases of Available-for-Sale Securities.** During fiscal year 2011, HRB Bank purchased $138.8 million in mortgage-backed securities for regulatory purposes. See additional discussion in Item 8, note 4 to the consolidated financial statements.

**Mortgage Loans Held for Investment.** We received net proceeds of $58.5 million, $72.8 million and $91.3 million on our mortgage loans held for investment in fiscal years 2011, 2010 and 2009, respectively.

**Purchases of Property and Equipment.** Total cash paid for property and equipment was $63.0 million, $90.5 million and $97.9 million for fiscal years 2011, 2010 and 2009, respectively.

**Business Acquisitions.** Total cash paid for acquisitions was $54.2 million, $10.5 million and $293.8 million during fiscal years 2011, 2010 and 2009, respectively. In July 2010 our Business Services segment acquired Caturano, a Boston-based accounting firm, and cash used in investing activities includes payments totaling $32.6 million related to this acquisition. See additional discussion in Item 8, note 2 to the consolidated financial statements. In November 2008, we acquired our last major independent franchise operator for an aggregate purchase price of $279.2 million.

In October 2010, we signed a definitive merger agreement to acquire all of the outstanding shares of 2SS Holdings, Inc. (“2SS”), developer of TaxACT digital tax preparation solutions, for $287.5 million in cash. Completion of the transaction is subject to the satisfaction of customary closing conditions, including regulatory approval. In May 2011, the United States Department of Justice (the “DOJ”) filed a civil antitrust lawsuit to block our proposed acquisition of 2SS. On June 21, 2011, the parties to the merger agreement signed an amendment to the merger agreement, which is discussed in Item 9B. There are no assurances that the DOJ’s lawsuit will be resolved in our favor or that the transaction will be consummated.

If the closing conditions are satisfied and this acquisition is consummated, we expect this acquisition will be funded by excess available liquidity from cash-on-hand or short-term borrowings.

**Sales of Businesses.** In fiscal year 2011, we sold 280 tax offices to franchisees for proceeds of $65.6 million. In fiscal year 2010, we sold 267 tax offices to franchisees for proceeds of $65.7 million. In fiscal year 2009, we sold certain tax offices to franchisees for proceeds of $16.9 million. The majority of these sales were financed through loans we made to our franchisees.

**Loans Made to Franchisees.** Loans made to franchisees totaled $92.5 million and $89.7 million for fiscal years 2011 and 2010, respectively. We received payments from franchisees totaling $57.6 million and $40.7 million, respectively. These amounts include both the financing of sales of tax offices and franchisee draws under our Franchise Equity Lines of Credit (FELCs).

**Discontinued Operations.** In fiscal year 2009, we sold our financial advisor business for proceeds of $304.0 million.

**CASH FROM FINANCING ACTIVITIES** – Changes in cash used in financing activities primarily relate to the following:

**Short-Term Borrowings.** We use commercial paper borrowings to fund our off-season losses and cover our seasonal working capital needs, however we had no commercial paper borrowings outstanding as of April 30, 2011 or 2010. Our commercial paper borrowings peaked at $674.7 million in the current year. We had other short-term borrowings in prior years to fund our participation interests in RALs.

**FHLB Borrowings.** HRB Bank obtains borrowings from the FHLB in accordance with regulatory and capital requirements. During fiscal years 2011, 2010 and 2009, we had net repayments of $50.0 million, $25.0 million and $29.0 million, respectively.

**Customer Banking Deposits.** Customer banking deposits used $11.4 million in the current year compared to $17.5 million provided in fiscal year 2010 and $64.4 million in fiscal year 2009. These deposits are held by HRB Bank

**Dividends.** We have consistently paid quarterly dividends. Dividends paid totaled $186.8 million, $200.9 million and $198.7 million in fiscal years 2011, 2010 and 2009, respectively.

**Repurchase and Retirement of Common Stock.** During fiscal year 2011, we purchased and immediately retired 19.0 million shares of our common stock at a cost of $279.9 million. During fiscal year 2010, we purchased and immediately retired 12.8 million shares of our common stock at a cost of $250.0 million. We may continue to repurchase and retire common stock or retire treasury stock in the future.

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 through June 2012. There was $1.4 billion remaining under this authorization at April 30, 2011.

**Issuances of Common Stock.** In October 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 $141.4 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 CLOC, 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 $0.4 million, $16.7 million and $71.6 million in fiscal years 2011, 2010 and 2009, respectively.

**HRB BANK** – Block Financial LLC (BFC) typically makes capital contributions to HRB Bank to help it meet its capital requirements. BFC made capital contributions to HRB Bank of $235.0 million during fiscal years 2011 and 2010, and $245.0 million in fiscal year 2009.

Historically, capital contributions by BFC have been repaid as a return of capital by HRB Bank as capital requirements decline. A return of capital or dividend paid by HRB Bank must be approved by the OTS. Although the OTS has approved such payments in the past, there is no assurance that they will continue to do so in the future, in particular if they determine that higher capital levels at HRB Bank are necessary due to non-performing asset levels. In addition, BFC may elect to maintain higher capital levels at HRB Bank. HRB Bank paid dividends and returned of capital of $262.5 million during fiscal year 2011, comprised of $37.5 million in REO properties and loans and $225.0 million in cash. At April 30, 2011, HRB Bank had cash balances of $615.1 million. Distribution of those cash balances would be subject to OTS approval and are therefore not currently available for general corporate purposes.

See additional discussion of regulatory and capital requirements of HRB Bank in “Regulatory Environment” below.

## BORROWINGS

We continually monitor our funding requirements and execute strategies to manage our overall asset and liability profile. The following chart provides the debt ratings for BFC as of April 30, 2011 and 2010:

| As of | April 30, 2011 | | | April 30, 2010 | | |
|---|---|---|---|---|---|---|
| | Short-term | Long-term | Outlook | Short-term | Long-term | Outlook |
| Moody’s | **P-2** | **Baa2** | **Negative** | P-2 | Baa1 | Stable |
| S&P | **A-2** | **BBB** | **Negative** | A-2 | BBB | Positive |
| DBRS | **R-2 (high)** | **BBB (high)** | **Stable** | R-2 (high) | BBB (high) | Positive |

At April 30, 2011, we maintained a CLOC agreement to support commercial paper issuances, general corporate purposes or for working capital needs. This facility provides funding up to $1.7 billion and matures July 31, 2013. This facility bears interest at an annual rate of LIBOR plus 1.30% to 2.80% or PRIME plus 0.30% to 1.80% (depending on the type of borrowing) and includes an annual facility fee of 0.20% to 0.70% of the committed amounts, based on our credit ratings. Covenants in this facility include: (1) maintenance of a minimum net worth of $650.0 million on the last day of any fiscal quarter; and (2) reduction of the aggregate outstanding principal amount of short-term debt, as defined in the agreement, to $200.0 million or less for thirty consecutive days during the period March 1 to June 30 of each year (“Clean-down requirement”). At April 30, 2011, we were in compliance with these covenants and had net worth of $1.4 billion. We had no balance outstanding under the CLOCs at April 30, 2011.

During fiscal years 2011, 2010 and 2009, borrowing needs in our Canadian operations were funded by corporate borrowings in the U.S. To mitigate the foreign currency exchange rate risk, we used foreign exchange forward contracts. We do not enter into forward contracts for speculative purposes. In estimating the fair value of derivative positions, we utilize quoted market prices, if available, or quotes obtained from external sources. There were no forward contracts outstanding as of April 30, 2011.

## CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

A summary of our obligations to make future payments as of April 30, 2011, is as follows:

(in 000s)

| | Total | Less Than 1 Year | 1 - 3 Years | 4 - 5 Years | After 5 Years |
|---|---|---|---|---|---|
| Long-term debt (including interest) | $ 1,151,434 | $ 67,750 | $ 674,257 | $ 409,427 | $ – |
| Customer deposits | 863,898 | 511,010 | 11,656 | 22 | 341,210 |
| FHLB borrowings | 25,000 | 25,000 | – | – | – |
| Retirement plan contribution | 50,000 | 10,000 | 20,000 | 20,000 | – |
| Acquisition payments | 43,273 | 2,880 | 31,376 | 2,909 | 6,108 |
| Contingent acquisition payments | 11,000 | 8,652 | 2,318 | 30 | – |
| Media advertising purchase obligation | 9,498 | 6,665 | 2,833 | – | – |
| Capital lease obligations | 10,953 | 557 | 1,411 | 1,545 | 7,440 |
| Operating leases | 735,048 | 238,167 | 309,107 | 120,080 | 67,694 |
| Total contractual cash obligations | $ 2,900,104 | $ 870,681 | $ 1,052,958 | $ 554,013 | $ 422,452 |

The amount of liabilities recorded in connection with unrecognized tax positions that we reasonably expect to pay within twelve months is $16.6 million at April 30, 2011 and is included in accrued income taxes on our consolidated balance sheet. The remaining amount is included in other noncurrent liabilities on our consolidated balance sheet. Because the ultimate amount and timing of any future cash settlements cannot be predicted with reasonable certainty, the estimated unrecognized tax position liability has been excluded from the table above. See Item 8, note 15 to the consolidated financial statements for additional information.

See discussion of contractual obligations and commitments in Item 8, within the notes to our consolidated financial statements.

## REGULATORY ENVIRONMENT

HRB Bank is a federal savings bank and H&R Block, Inc. is a savings and loan holding company. As a result, each is subject to regulation by the OTS. Federal savings banks are subject to extensive regulation and examination by the OTS, their primary federal regulator, as well as the FDIC.

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 involving 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. As of March 31, 2011, our most recent Thrift Financial Report (TFR) filing with the OTS, HRB bank was a "well capitalized" institution under the prompt corrective action provisions of the FDIC. See Item 8, note 20 to the consolidated financial statements for additional discussion of regulatory capital requirements and classifications.

HRB Bank is an indirect wholly-owned subsidiary of H&R Block, Inc. and its customer deposits are insured by the FDIC. If an insured institution fails, claims for administrative expenses of the receiver and for deposits in U.S. branches (including claims of the FDIC as subrogee of the failed institution) have priority over the claims of general unsecured creditors. In addition, the FDIC has authority to require H&R Block, Inc. to reimburse it for losses it incurs in connection with the failure of HRB Bank or with the FDIC's provision of assistance to a banking subsidiary that is in danger of failure.

H&R Block, Inc. is a legal entity separate and distinct from its subsidiary, HRB Bank. Various federal and state statutory provisions and regulations limit the amount of dividends HRB Bank may pay without regulatory approval. The OTS has authority to prohibit HRB Bank from engaging in unsafe or unsound practices in conducting their business. The payment of dividends, depending on the financial condition of the bank, could be deemed an unsafe or unsound practice. The ability of HRB Bank to pay dividends in the future is currently, and could be further, influenced by bank regulatory policies and capital guidelines.

The U.S., various state, local, provincial and foreign governments and some self-regulatory organizations have enacted statutes and ordinances, and/or adopted rules and regulations, regulating aspects of our business. These aspects include, but are not limited to, commercial income tax return preparers, income tax courses, the electronic filing of income tax returns, the offering of RACs, the facilitation of RALs, loan originations and assistance in loan originations, mortgage lending, privacy, consumer protection, franchising, sales methods, banking, accountants and the accounting practice. We seek to determine the applicability of such statutes, ordinances, rules and regulations (collectively, "Laws") and comply with those Laws.

From time to time in the ordinary course of business, we receive inquiries from governmental and self-regulatory agencies regarding the applicability of Laws to our services and products. In response to past inquiries, we have agreed to comply with such Laws, convinced the authorities that such Laws were not applicable or that compliance already exists and/or modified our activities in the applicable jurisdiction to avoid the application of all or certain parts of such Laws. We believe the past resolution of such inquiries and our ongoing compliance with Laws has not had a material effect on our consolidated financial statements. We cannot predict what effect future Laws, changes in interpretations of existing Laws or the results of future regulator inquiries with respect to the applicability of Laws may have on our consolidated financial statements. See additional discussion of legal matters in Item 3, "Legal Proceedings" and Item 8, note 19 to our consolidated financial statements.

## STATISTICAL DISCLOSURE BY BANK HOLDING COMPANIES

This section presents information required by the SEC's Industry Guide 3, "Statistical Disclosure by Bank Holding Companies." The tables in this section include HRB Bank information only.

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**DISTRIBUTION OF ASSETS, LIABILITIES AND SHAREHOLDERS' EQUITY; INTEREST RATES AND INTEREST DIFFERENTIAL** – The following table presents average balance data and interest income and expense data for our banking operations, as well as the related interest yields and rates for fiscal years 2011, 2010 and 2009:

(dollars in 000s)

| Year Ended April 30, | 2011 | | | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Average Balance | Interest Income/ Expense | Average Yield/ Cost | Average Balance | Interest Income/ Expense | Average Yield/ Cost | Average Balance | Interest Income/ Expense | Average Yield/ Cost |
| Interest-earning assets: | | | | | | | | | |
| Mortgage loans, net | $ 545,052 | $ 24,693 | 4.53% | $ 677,115 | $ 31,877 | 4.12% | $ 839,253 | $ 46,396 | 5.14% |
| Federal funds sold | 2,649 | 3 | 0.10% | 9,471 | 9 | 0.09% | 311,138 | 801 | 0.26% |
| Emerald Advance (1) | 141,127 | 94,300 | 35.21% | 106,093 | 77,891 | 35.21% | 133,252 | 91,019 | 35.31% |
| Available-for-sale investment securities | 22,243 | 174 | 0.78% | 25,144 | 181 | 0.71% | 29,500 | 791 | 2.68% |
| FHLB stock | 5,953 | 171 | 2.88% | 6,703 | 119 | 1.77% | 6,557 | 127 | 1.93% |
| Cash and due from banks | 930,666 | 2,338 | 0.25% | 747,504 | 1,976 | 0.26% | 12,474 | 123 | 0.99% |
| | 1,647,690 | $ 121,679 | 7.38% | 1,572,030 | $ 112,053 | 7.00% | 1,332,174 | $ 139,257 | 10.45% |
| Non-interest-earning assets | 57,899 | | | 94,499 | | | 71,759 | | |
| Total HRB Bank assets | $ 1,705,589 | | | $ 1,666,529 | | | $ 1,403,933 | | |
| Interest-bearing liabilities: | | | | | | | | | |
| Customer deposits | $ 830,597 | $ 8,488 | 1.02% | $ 1,019,664 | $ 10,174 | 1.00% | $ 863,072 | $ 14,069 | 1.63% |
| FHLB borrowing | 72,534 | 1,526 | 2.10% | 98,767 | 1,997 | 2.02% | 103,885 | 5,113 | 4.92% |
| | 903,131 | $ 10,014 | 1.11% | 1,118,431 | $ 12,171 | 1.09% | 966,957 | $ 19,182 | 1.98% |
| Non-interest-bearing liabilities | 366,666 | | | 267,159 | | | 230,271 | | |
| Total liabilities | 1,269,797 | | | 1,385,590 | | | 1,197,228 | | |
| Total shareholders' equity | 435,792 | | | 280,939 | | | 206,705 | | |
| Total liabilities and shareholders' equity | $ 1,705,589 | | | $ 1,666,529 | | | $ 1,403,933 | | |
| Net yield on interest-earning assets (1) | | $ 111,665 | 6.78% | | $ 99,882 | 6.23% | | $ 120,075 | 9.06% |

(1) Includes all interest income related to Emerald Advance activities. Amounts recognized as interest income also include certain fees, which are amortized into interest income over the life of the loan, of $48.5 million, $39.2 million and $44.0 million for fiscal years 2011, 2010 and 2009, respectively.

The following table presents the rate/volume variance in interest income and expense for the last two fiscal years:

(in 000s)

| Year Ended April 30, | 2011 | | | | 2010 | | | |
|---|---|---|---|---|---|---|---|---|
| | Total Change in Interest Income/Expense | Change Due to Rate/Volume | Change Due to Rate | Change Due to Volume | Total Change in Interest Income/Expense | Change Due to Rate/Volume | Change Due to Rate | Change Due to Volume |
| Interest income: | | | | | | | | |
| Loans, net(1) | $ 9,225 | $ 4,485 | $ (1,211) | $ 5,951 | $ (27,646) | $ 1,233 | $ (8,192) | $ (20,687) |
| Available-for-sale investment securities | (7) | (2) | 16 | (21) | (611) | 86 | (580) | (117) |
| Federal funds sold | (6) | (1) | 1 | (6) | (792) | 500 | (515) | (777) |
| FHLB stock | 52 | (8) | 73 | (13) | (8) | — | (11) | 3 |
| Cash & due from banks | 362 | 40 | (128) | 450 | 1,853 | (5,305) | (90) | 7,248 |
| | $ 9,626 | $ 4,514 | $ (1,249) | $ 6,361 | $ (27,204) | $ (3,486) | $ (9,388) | $ (14,330) |
| Interest expense: | | | | | | | | |
| Customer deposits | $ (1,686) | $ (264) | $ 56 | $ (1,478) | $ (3,895) | $ (573) | $ (5,457) | $ 2,135 |
| FHLB borrowings | (471) | (22) | 81 | (530) | (3,116) | 149 | (3,013) | (252) |
| | $ (2,157) | $ (286) | $ 137 | $ (2,008) | $ (7,011) | $ (424) | $ (8,470) | $ 1,883 |

(1) Non-accruing loans have been excluded.

**INVESTMENT PORTFOLIO** – The following table presents the cost basis and fair value of HRB Bank's investment portfolio at April 30, 2011, 2010 and 2009:

(in 000s)

| April 30, | 2011 | | 2010 | | 2009 | |
|---|---|---|---|---|---|---|
| | Cost Basis | Fair Value | Cost Basis | Fair Value | Cost Basis | Fair Value |
| Mortgage-backed securities | $ 157,970 | $ 158,177 | $ 23,026 | $ 23,016 | $ 27,466 | $ 26,793 |
| Federal funds sold | 8,727 | 8,727 | 2,338 | 2,338 | 157,326 | 157,326 |
| FHLB stock | 3,315 | 3,315 | 6,033 | 6,033 | 6,730 | 6,730 |
| Trust preferred security | – | – | 1,854 | 31 | 3,454 | 292 |
| | $ 170,012 | $ 170,219 | $ 33,251 | $ 31,418 | $ 194,976 | $ 191,141 |

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The following table shows the cost basis, scheduled maturities and average yields for HRB Bank's investment portfolio at April 30, 2011:

(dollars in 000s)

| | | Less Than One Year | | After Ten Years | | Total | |
|---|---|---|---|---|---|---|---|
| | Cost Basis | Balance Due | Average Yield | Balance Due | Average Yield | Balance Due | Average Yield |
| Mortgage-backed securities | **$ 157,970** | **$ –** | **– %** | **$ 157,970** | **2.32%** | **$ 157,970** | **2.32%** |
| Federal funds sold | **8,727** | **8,727** | **0.08%** | **–** | **– %** | **8,727** | **0.08%** |
| FHLB stock | **3,315** | **3,315** | **2.88%** | **–** | **– %** | **3,315** | **2.88%** |
| | **$ 170,012** | **$ 12,042** | | **$ 157,970** | | **$ 170,012** | |

**LOAN PORTFOLIO AND SUMMARY OF LOAN LOSS EXPERIENCE** – The following table shows the composition of HRB Bank's mortgage loan portfolio as of April 30, 2011, 2010, 2009, 2008 and 2007, and information on delinquent loans:

(in 000s)

| As of April 30, | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| Residential real estate mortgages | **$ 569,610** | $ 683,452 | $ 821,583 | $ 1,004,283 | $ 1,350,612 |
| Home equity lines of credit | **183** | 232 | 254 | 357 | 280 |
| | **$ 569,793** | $ 683,684 | $ 821,837 | $ 1,004,640 | $ 1,350,892 |
| Loans and TDRs on non-accrual | **$ 155,645** | $ 185,209 | $ 222,382 | $ 110,759 | $ 22,909 |
| Loans past due 90 days or more | **149,501** | 153,703 | 121,685 | 73,600 | 22,909 |
| Total TDRs | **106,328** | 144,977 | 160,741 | 37,159 | – |

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 geographical location. The table below presents outstanding loans by state for our portfolio of mortgage loans held for investment as of April 30, 2011:

(dollars in 000s)

| | Loans Purchased from SCC | Loans Purchased from Other Parties | Total | Percent of Total | Delinquency Rate (30+ Days) |
|---|---|---|---|---|---|
| Florida | **$ 47,378** | **$ 68,499** | **$ 115,877** | **20%** | **33 %** |
| California | **67,662** | **12,219** | **79,881** | **14%** | **32 %** |
| New York | **88,004** | **10,101** | **98,105** | **17%** | **46 %** |
| Wisconsin | **1,998** | **44,551** | **46,549** | **8%** | **8 %** |
| All others | **149,949** | **79,432** | **229,381** | **41%** | **26 %** |
| Total | **$ 354,991** | $ 214,802 | **$ 569,793** | **100%** | |

A rollforward of HRB Bank's allowance for loss on mortgage loans is as follows:

(dollars in 000s)

| Year Ended April 30, | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| Balance at beginning of the year | **$ 93,535** | $ 84,073 | $ 45,401 | $ 3,448 | $ – |
| Provision | **35,200** | 47,750 | 63,897 | 42,004 | 3,622 |
| Recoveries | **272** | 88 | 54 | 999 | – |
| Charge-offs and transfers | **(38,520)** | (38,376) | (25,279) | (1,050) | (174) |
| Balance at end of the year | **$ 90,487** | $ 93,535 | $ 84,073 | $ 45,401 | $ 3,448 |
| Ratio of net charge-offs to average loans outstanding during the year | **5.96%** | 4.95% | 2.80% | 0.09% | 0.02% |

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**DEPOSITS** – The following table shows HRB Bank's average deposit balances and the average rate paid on those deposits for fiscal years 2011, 2010 and 2009:

(dollars in 000s)

| Year Ended April 30, | 2011 | | 2010 | | 2009 | |
|---|---|---|---|---|---|---|
| | Average Balance | Average Rate | Average Balance | Average Rate | Average Balance | Average Rate |
| Money market and savings | $ 279,162 | 0.81% | $ 400,920 | 0.50% | $ 467,864 | 1.37% |
| Interest-bearing checking accounts | 10,782 | 0.87% | 13,677 | 0.61% | 13,579 | 2.25% |
| IRAs | 353,902 | 1.01% | 377,973 | 1.02% | 289,814 | 1.27% |
| Certificates of deposit | 186,742 | 1.36% | 227,094 | 1.86% | 91,815 | 3.98% |
| | 830,588 | 1.02% | 1,019,664 | 1.00% | 863,072 | 1.63% |
| Non-interest-bearing deposits | 310,781 | | 233,717 | | 212,607 | |
| | $ 1,141,369 | | $ 1,253,381 | | $ 1,075,679 | |

**RATIOS** – The following table shows certain of HRB Bank's key ratios for fiscal years 2011, 2010 and 2009:

| Year Ended April 30, | 2011 | 2010 | 2009 |
|---|---|---|---|
| Pretax return on assets | 2.36% | 2.12% | (1.03)% |
| Net return on equity | 5.43% | 21.04% | (6.67)% |
| Equity to assets ratio | 30.81% | 28.83% | 12.44% |

During fiscal year 2009, HRB Bank shared the revenues and expenses of the H&R Block Prepaid MasterCard® program with an affiliate, and as a result, transferred revenues and expenses of $49.4 million and $13.4 million, respectively, to this affiliate. During fiscal year 2010, the agreement with the affiliate was terminated and HRB Bank now retains the revenues and expenses of the program.

**SHORT-TERM BORROWINGS** – The following table shows HRB Bank's short-term borrowings for fiscal years 2011, 2010 and 2009:

(dollars in 000s)

| Year Ended April 30, | 2011 | | 2010 | | 2009 | |
|---|---|---|---|---|---|---|
| | Balance | Rate | Balance | Rate | Balance | Rate |
| Ending balance of FHLB advances | $ 25,000 | 2.36% | $ 50,000 | 1.92% | $ 25,000 | 1.76% |
| Average balance of FHLB advances | 72,534 | 2.10% | 98,767 | 2.07% | 103,885 | 4.92% |

The maximum amount of FHLB advances outstanding during fiscal years 2011, 2010 and 2009 was $75.0 million, $100.0 million and $129.0 million, respectively.

## NEW ACCOUNTING PRONOUNCEMENTS

See Item 8, note 1 to our consolidated financial statements for a discussion of recently issued accounting pronouncements.

## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

### INTEREST RATE RISK

**GENERAL** – We have a formal investment policy that strives to minimize the market risk exposure of our cash equivalents and available-for-sale (AFS) securities, which are primarily affected by credit quality and movements in interest rates. These guidelines focus on managing liquidity and preserving principal and earnings.

Our cash equivalents are primarily held for liquidity purposes and are comprised of high quality, short-term investments, including qualified money market funds. Because our cash and cash equivalents have a relatively short maturity, our portfolio's market value is relatively insensitive to interest rate changes.

As our short-term borrowings are generally seasonal, interest rate risk typically increases through our third fiscal quarter and declines to zero by fiscal year-end. While the market value of short-term borrowings is relatively insensitive to interest rate changes, interest expense on short-term borrowings will increase and decrease with changes in the underlying short-term interest rates.

Our long-term debt at April 30, 2011, consists primarily of fixed-rate Senior Notes; therefore, a change in interest rates would have no impact on consolidated pretax earnings. See Item 8, note 11 to our consolidated financial statements.

**HRB BANK** – At April 30, 2011, residential mortgage loans held for investment consisted of 42% fixed-rate loans and 58% adjustable-rate loans. These loans are sensitive to changes in interest rates as well as expected prepayment levels. As interest rates increase, fixed-rate residential mortgages tend to exhibit lower

prepayments. The opposite is true in a falling rate environment. When mortgage loans prepay, mortgage origination costs are written off. Depending on the timing of the prepayment, the write-offs of mortgage origination costs may result in lower than anticipated yields.

At April 30, 2011, HRB Bank's other investments consisted primarily of mortgage-backed securities and FHLB stock. See table below for sensitivity analysis of our mortgage-backed securities.

HRB Bank's liabilities consist primarily of transactional deposit relationships, such as prepaid debit card accounts and checking accounts. Other liabilities include money market accounts, certificates of deposit and collateralized borrowings from the FHLB. Money market accounts re-price as interest rates change. Certificates of deposit re-price over time depending on maturities. FHLB advances generally have fixed rates ranging from one day through multiple years.

Under criteria published by the OTS, HRB Bank's overall interest rate risk exposure at March 31, 2011, the most recent date an evaluation was completed, was characterized as "minimal." We actively manage our interest rate risk positions. As interest rates change, we will adjust our strategy and mix of assets and liabilities to optimize our position.

## EQUITY PRICE RISK

We have limited exposure to the equity markets. Our primary exposure is through our deferred compensation plans. Within the deferred compensation plans, we have mismatches in asset and liability amounts and investment choices (both fixed-income and equity). At April 30, 2011 and 2010, the impact of a 10% market value change in the combined equity assets held by our deferred compensation plans and other equity investments would be $10.9 million and $9.7 million, respectively, assuming no offset for the liabilities.

## FOREIGN EXCHANGE RATE RISK

Our operations in international markets are exposed to movements in currency exchange rates. The currencies involved are the Canadian dollar and the Australian dollar. We translate revenues and expenses related to these operations at the average of exchange rates in effect during the period. Assets and liabilities of foreign subsidiaries are translated into U.S. dollars at exchange rates prevailing at the end of the year. Translation adjustments are recorded as a separate component of other comprehensive income in stockholders' equity. Translation of financial results into U.S. dollars does not presently materially affect and has not historically materially affected our consolidated financial results, although such changes do affect the year-to-year comparability of the operating results in U.S. dollars of our international businesses. We estimate a 10% change in foreign exchange rates by itself would impact consolidated net income in fiscal years 2011 and 2010 by $3.7 million and $5.1 million, respectively, and cash balances at April 30, 2011 and 2010 by $7.6 million and $7.1 million, respectively.

During fiscal year 2011, borrowing needs in our Canadian operations were funded by corporate borrowings in the U.S. To mitigate the foreign currency exchange rate risk, we used forward foreign exchange contracts. We do not enter into forward contracts for speculative purposes. In estimating the fair value of derivative positions, we utilized quoted market prices, if available, or quotes obtained from external sources. When foreign currency financial instruments are outstanding, exposure to market risk on these instruments results from fluctuations in currency rates during the periods in which the contracts are outstanding. The counterparties to our currency exchange contracts consist of major financial institutions, each of which is rated investment grade. We are exposed to credit risk to the extent of potential non-performance by counterparties on financial instruments. Any potential credit exposure does not exceed the fair value. We believe the risk of incurring losses due to credit risk is remote. At April 30, 2011 we had no forward exchange contracts outstanding.

## SENSITIVITY ANALYSIS

The sensitivities of certain financial instruments to changes in interest rates as of April 30, 2011 and 2010 are presented below. The following table represents hypothetical instantaneous and sustained parallel shifts in interest rates and should not be relied on as an indicator of future expected results. The impact of a change in interest rates on other factors, such as delinquency and prepayment rates, is not included in the analysis below.

(in 000s)

| | Carrying Value at April 30, 2011 | Basis Point Change −300 | −200 | −100 | +100 | +200 | +300 |
|---|---|---|---|---|---|---|---|
| Mortgage loans held for investment | $ 485,008 | $ 53,949 | $ 36,810 | $ 18,844 | $ (16,601) | $ (31,228) | $ (46,280) |
| Mortgage-backed securities | 158,177 | 640 | 611 | 1,161 | (5,325) | (11,700) | (17,978) |

| | Carrying Value at April 30, 2010 | Basis Point Change −300 | −200 | −100 | +100 | +200 | +300 |
|---|---|---|---|---|---|---|---|
| Mortgage loans held for investment | $ 595,405 | $ 60,251 | $ 43,363 | $ 20,780 | $ (7,906) | $ (12,525) | $ (14,664) |
| Mortgage-backed securities | 23,016 | 123 | 125 | 134 | (272) | (411) | (510) |

# ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

## DISCUSSION OF FINANCIAL RESPONSIBILITY

H&R Block's management is responsible for the integrity and objectivity of the information contained in this document. Management is responsible for the consistency of reporting this information and for ensuring that accounting principles generally accepted in the United States are used. In discharging this responsibility, management maintains an extensive program of internal audits and requires the management teams of our individual subsidiaries to certify their respective financial information. Our system of internal control over financial reporting also includes formal policies and procedures, including a Code of Business Ethics and Conduct program designed to encourage and assist all employees and directors in living up to high standards of integrity.

The Audit Committee of the Board of Directors, composed solely of outside and independent directors, meets periodically with management, the independent auditors and the chief internal auditor to review matters relating to our financial statements, internal audit activities, internal accounting controls and non-audit services provided by the independent auditors. The independent auditors and the chief internal auditor have full access to the Audit Committee and meet, both with and without management present, to discuss the scope and results of their audits, including internal control, audit and financial matters.

Deloitte & Touche LLP audited our consolidated financial statements for fiscal years 2011, 2010 and 2009. Their audits were conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States).

## MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 12a-15(f). Under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in "Internal Control — Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) as of April 30, 2011.

Based on our assessment, management concluded that as of April 30, 2011, the Company's internal control over financial reporting was effective based on the criteria set forth by COSO. The Company's external auditors, Deloitte & Touche LLP, an independent registered public accounting firm, have issued an audit report on the effectiveness of the Company's internal control over financial reporting.

William C. Cobb
President and Chief Executive Officer

Jeffrey T. Brown
Senior Vice President and Chief Financial Officer

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
H&R Block, Inc.
Kansas City, Missouri

We have audited the accompanying consolidated balance sheets of H&R Block, Inc. and subsidiaries (the "Company") as of April 30, 2011 and 2010, and the related consolidated statements of income and comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended April 30, 2011. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of H&R Block, Inc. and subsidiaries as of April 30, 2011 and 2010, and the results of their operations and their cash flows for each of the three years in the period ended April 30, 2011, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 17 to the consolidated financial statements, the Company adopted an accounting standard related to consolidation of variable interest entities effective May 1, 2010.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of April 30, 2011, based on the criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated June 23, 2011 expressed an unqualified opinion on the Company's internal control over financial reporting.

Kansas City, Missouri
June 23, 2011

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
H&R Block, Inc.
Kansas City, Missouri

We have audited the internal control over financial reporting of H&R Block, Inc. and subsidiaries (the "Company") as of April 30, 2011, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel 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 principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of April 30, 2011, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended April 30, 2011 of the Company and our report dated June 23, 2011 expressed an unqualified opinion on those financial statements and included an explanatory paragraph regarding the Company's adoption of an accounting standard related to consolidation of variable interest entities on May 1, 2010.

Kansas City, Missouri
June 23, 2011

# CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(in 000s, except per share amounts)

| Year Ended April 30, | 2011 | 2010 | 2009 |
|---|---|---|---|
| **REVENUES:** | | | |
| Service revenues | $ 3,225,861 | $ 3,231,487 | $ 3,437,906 |
| Product and other revenues | 414,282 | 520,440 | 491,155 |
| Interest income | 134,153 | 122,405 | 154,516 |
| | 3,774,296 | 3,874,332 | 4,083,577 |
| **OPERATING EXPENSES:** | | | |
| Cost of revenues | 2,414,590 | 2,467,996 | 2,596,218 |
| Selling, general and administrative | 694,136 | 631,499 | 648,490 |
| | 3,108,726 | 3,099,495 | 3,244,708 |
| Operating income | 665,570 | 774,837 | 838,869 |
| Other income, net | 11,455 | 9,298 | 501 |
| Income from continuing operations before income taxes | 677,025 | 784,135 | 839,370 |
| Income taxes | 257,620 | 295,189 | 326,315 |
| Net income from continuing operations | 419,405 | 488,946 | 513,055 |
| Net loss from discontinued operations | (13,295) | (9,704) | (27,382) |
| **NET INCOME** | $ 406,110 | $ 479,242 | $ 485,673 |
| **BASIC EARNINGS (LOSS) PER SHARE:** | | | |
| Net income from continuing operations | $ 1.35 | $ 1.47 | $ 1.53 |
| Net loss from discontinued operations | (0.04) | (0.03) | (0.08) |
| Net income | $ 1.31 | $ 1.44 | $ 1.45 |
| **DILUTED EARNINGS (LOSS) PER SHARE:** | | | |
| Net income from continuing operations | $ 1.35 | $ 1.46 | $ 1.53 |
| Net loss from discontinued operations | (0.04) | (0.03) | (0.08) |
| Net income | $ 1.31 | $ 1.43 | $ 1.45 |
| **COMPREHENSIVE INCOME:** | | | |
| Net income | $ 406,110 | $ 479,242 | $ 485,673 |
| Unrealized gains (losses) on securities, net of taxes: | | | |
| Unrealized holding gains (losses) arising during the year, net of taxes of $58, $188 and $(1,736) | 73 | 274 | (2,836) |
| Reclassification adjustment for gains included in income, net of taxes of ($133), $811 and $762 | 55 | (1,399) | (1,164) |
| Change in foreign currency translation adjustments | 9,427 | 14,442 | (10,125) |
| Comprehensive income | $ 415,665 | $ 492,559 | $ 471,548 |

See accompanying notes to consolidated financial statements.

# CONSOLIDATED BALANCE SHEETS

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

| As of April 30, | 2011 | 2010 |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | **$ 1,677,844** | $ 1,804,045 |
| Cash and cash equivalents — restricted | **48,383** | 34,350 |
| Receivables, less allowance for doubtful accounts of $67,466 and $112,475 | **492,290** | 517,986 |
| Prepaid expenses and other current assets | **259,214** | 292,655 |
| Total current assets | **2,477,731** | 2,649,036 |
| Mortgage loans held for investment, less allowance for loan losses of $92,087 and $93,535 | **485,008** | 595,405 |
| Property and equipment, at cost less accumulated depreciation and amortization of $677,220 and $657,008 | **307,320** | 345,470 |
| Intangible assets, net | **367,919** | 367,432 |
| Goodwill | **846,245** | 840,447 |
| Other assets | **723,738** | 436,528 |
| Total assets | **$ 5,207,961** | $ 5,234,318 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| **LIABILITIES:** | | |
| Customer banking deposits | **$ 852,220** | $ 852,555 |
| Accounts payable, accrued expenses and other current liabilities | **618,070** | 756,577 |
| Accrued salaries, wages and payroll taxes | **257,038** | 199,496 |
| Accrued income taxes | **458,910** | 459,175 |
| Current portion of long-term debt | **3,437** | 3,688 |
| Federal Home Loan Bank borrowings | **25,000** | 50,000 |
| Total current liabilities | **2,214,675** | 2,321,491 |
| Long-term debt | **1,049,754** | 1,035,144 |
| Federal Home Loan Bank borrowings | **–** | 25,000 |
| Other noncurrent liabilities | **493,958** | 412,053 |
| Total liabilities | **3,758,387** | 3,793,688 |
| **COMMITMENTS AND CONTINGENCIES** | | |
| **STOCKHOLDERS' EQUITY:** | | |
| Common stock, no par, stated value $.01 per share, 800,000,000 shares authorized, shares issued of 412,440,599 and 431,390,599 | **4,124** | 4,314 |
| Convertible preferred stock, no par, stated value $0.01 per share, 500,000 shares authorized | **–** | – |
| Additional paid-in capital | **812,666** | 832,604 |
| Accumulated other comprehensive income | **11,233** | 1,678 |
| Retained earnings | **2,658,103** | 2,658,586 |
| Less treasury shares, at cost | **(2,036,552)** | (2,056,552) |
| Total stockholders' equity | **1,449,574** | 1,440,630 |
| Total liabilities and stockholders' equity | **$ 5,207,961** | $ 5,234,318 |

See accompanying notes to consolidated financial statements.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

(in 000s)

| Year Ended April 30, | 2011 | 2010 | 2009 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | | |
| Net income | $ 406,110 | $ 479,242 | $ 485,673 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 121,633 | 126,901 | 123,631 |
| Provision for bad debts and loan losses | 180,951 | 161,296 | 181,829 |
| Provision for deferred taxes | 9,432 | 170,566 | 73,213 |
| Stock-based compensation | 14,500 | 29,369 | 26,557 |
| Net cash provided by discontinued operations | – | – | 97,578 |
| Changes in assets and liabilities, net of acquisitions: | | | |
| Cash and cash equivalents — restricted | (14,033) | 2,497 | (44,625) |
| Receivables | (105,708) | (87,889) | (77,447) |
| Prepaid expenses and other current assets | (37,892) | (2,320) | 84,279 |
| Other noncurrent assets | (98,818) | (59,429) | 176,864 |
| Accounts payable, accrued expenses and other current liabilities | (111,727) | (305) | (36,024) |
| Accrued salaries, wages and payroll taxes | 56,009 | (59,617) | (106,014) |
| Accrued income taxes | 5,962 | (77,254) | 126,594 |
| Other noncurrent liabilities | 119,428 | (65,261) | (56,001) |
| Other, net | (33,344) | (30,327) | (31,668) |
| Net cash provided by operating activities | 512,503 | 587,469 | 1,024,439 |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | | |
| Available-for-sale securities: | | | |
| Purchases of available-for-sale securities | (138,824) | (5,365) | (5,092) |
| Maturities of and payments received on available-for-sale securities | 16,797 | 15,758 | 15,075 |
| Principal payments on mortgage loans held for investment, net | 58,471 | 72,832 | 91,329 |
| Purchases of property and equipment | (62,959) | (90,515) | (97,880) |
| Payments made for business acquisitions, net of cash acquired | (54,171) | (10,539) | (293,805) |
| Proceeds from sale of businesses, net | 71,083 | 66,623 | 18,865 |
| Franchise loans: | | | |
| Loans funded | (92,455) | (89,664) | – |
| Payments received | 57,552 | 40,710 | – |
| Net cash provided by investing activities of discontinued operations | – | – | 255,066 |
| Other, net | 34,349 | 31,513 | 22,002 |
| Net cash provided by (used in) investing activities | (110,157) | 31,353 | 5,560 |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | | |
| Repayments of commercial paper | (4,818,766) | (1,406,013) | – |
| Proceeds from issuance of commercial paper | 4,818,766 | 1,406,013 | – |
| Repayments of other borrowings | (50,000) | (4,267,773) | (4,762,294) |
| Proceeds from other borrowings | – | 4,242,727 | 4,733,294 |
| Customer banking deposits, net | (11,440) | 17,539 | 64,357 |
| Dividends paid | (186,802) | (200,899) | (198,685) |
| Repurchase of common stock, including shares surrendered | (283,534) | (254,250) | (106,189) |
| Proceeds from issuance of common stock, net | – | – | 141,415 |
| Proceeds from exercise of stock options | 424 | 16,682 | 71,594 |
| Net cash provided by financing activities of discontinued operations | – | – | 4,783 |
| Other, net | (3,039) | (35,144) | 11,492 |
| Net cash used in financing activities | (534,391) | (481,118) | (40,233) |
| Effects of exchange rates on cash | 5,844 | 11,678 | – |
| Net increase (decrease) in cash and cash equivalents | (126,201) | 149,382 | 989,766 |
| Cash and cash equivalents at beginning of the year | 1,804,045 | 1,654,663 | 664,897 |
| Cash and cash equivalents at end of the year | $ 1,677,844 | $ 1,804,045 | $ 1,654,663 |
| **SUPPLEMENTARY CASH FLOW DATA:** | | | |
| Income taxes paid, net of refunds received of $4,762, $12,587 and $158,862 | $ 244,917 | $ 359,559 | $ (1,593) |
| Interest paid on borrowings | 73,791 | 78,305 | 89,541 |
| Interest paid on deposits | 8,541 | 10,156 | 14,004 |
| Transfers of foreclosed loans to other assets | 16,463 | 19,341 | 65,171 |

See accompanying notes to consolidated financial statements.

# CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(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 Stockholders' Equity |
|---|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | | | | Shares | Amount | |
| Balances at May 1, 2008 | 435,891 | $ 4,359 | – | $ – | $ 695,959 | $ 2,486 | $ 2,384,449 | (109,880) | $ (2,099,435) | $ 987,818 |
| Net income | – | – | – | – | – | – | 485,673 | – | – | 485,673 |
| Unrealized translation loss | – | – | – | – | – | (10,125) | – | – | – | (10,125) |
| Change in net unrealized gain (loss) on available-for-sale securities | – | – | – | – | – | (4,000) | – | – | – | (4,000) |
| Proceeds from common stock Issuance, net of expenses | 8,286 | 83 | – | – | 141,332 | – | – | – | – | 141,415 |
| Stock-based compensation | – | – | – | – | 32,600 | – | – | – | – | 32,600 |
| Shares issued for: | | | | | | | | | | |
| Option exercises | – | – | – | – | (12,624) | – | – | 4,481 | 85,624 | 73,000 |
| Nonvested shares | – | – | – | – | (20,392) | – | – | 1,015 | 19,402 | (990) |
| ESPP | – | – | – | – | (423) | – | – | 292 | 5,577 | 5,154 |
| Acquisitions | – | – | – | – | 25 | – | – | 8 | 163 | 188 |
| Acquisition of treasury shares | – | – | – | – | – | – | – | (5,991) | (106,189) | (106,189) |
| Cash dividends paid – $0.59 per share | – | – | – | – | – | – | (198,685) | – | – | (198,685) |
| Balances at April 30, 2009 | 444,177 | 4,442 | – | – | 836,477 | (11,639) | 2,671,437 | (110,075) | (2,094,858) | 1,405,859 |
| Net income | – | – | – | – | – | – | 479,242 | – | – | 479,242 |
| Unrealized translation gain | – | – | – | – | – | 14,442 | – | – | – | 14,442 |
| Change in net unrealized gain (loss) on available-for-sale securities | – | – | – | – | – | (1,125) | – | – | – | (1,125) |
| Stock-based compensation | – | – | – | – | 29,369 | – | – | – | – | 29,369 |
| Shares issued for: | | | | | | | | | | |
| Option exercises | – | – | – | – | (10,840) | – | – | 1,293 | 24,616 | 13,776 |
| Nonvested shares/units | – | – | – | – | (13,806) | – | (300) | 677 | 12,879 | (1,227) |
| ESPP | – | – | – | – | (924) | – | – | 266 | 5,058 | 4,134 |
| Acquisition of treasury shares | – | – | – | – | – | – | – | (246) | (4,247) | (4,247) |
| Retirement of common shares | (12,786) | (128) | – | – | (7,672) | – | (242,203) | – | – | (250,003) |
| Cash dividends declared | – | – | – | – | – | – | (48,691) | – | – | (48,691) |
| Cash dividends paid – $0.60 per share | – | – | – | – | – | – | (200,899) | – | – | (200,899) |
| Balances at April 30, 2010 | 431,391 | 4,314 | – | – | 832,604 | 1,678 | 2,658,586 | (108,085) | (2,056,552) | 1,440,630 |
| Net income | – | – | – | – | – | – | **406,110** | – | – | **406,110** |
| Unrealized translation gain | – | – | – | – | – | **9,427** | – | – | – | **9,427** |
| Change in net unrealized gain (loss) on available-for-sale securities | – | – | – | – | – | **128** | – | – | – | **128** |
| Stock-based compensation | – | – | – | – | **14,500** | – | – | – | – | **14,500** |
| Shares issued for: | | | | | | | | | | |
| Option exercises | – | – | – | – | **(8,332)** | – | – | **339** | **6,439** | **(1,893)** |
| Nonvested shares/units | – | – | – | – | **(12,952)** | – | **(95)** | **632** | **12,028** | **(1,019)** |
| ESPP | – | – | – | – | **(1,784)** | – | – | **269** | **5,121** | **3,337** |
| Acquisition of treasury shares | – | – | – | – | – | – | – | **(230)** | **(3,588)** | **(3,588)** |
| Retirement of common shares | **(18,950)** | **(190)** | – | – | **(11,370)** | – | **(268,387)** | – | – | **(279,947)** |
| Cash dividends declared – $0.45 per share | – | – | – | – | – | – | **(138,111)** | – | – | **(138,111)** |
| Balances at April 30, 2011 | **412,441** | **$ 4,124** | – | $ – | **$ 812,666** | **$ 11,233** | **$ 2,658,103** | **(107,075)** | **$ (2,036,552)** | **$ 1,449,574** |

See accompanying notes to consolidated financial statements.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**NATURE OF OPERATIONS –** Our operating subsidiaries provide a variety of services to the general public, principally in the United States (U.S.). Specifically, we offer: tax return preparation; tax and consulting services to business clients; certain retail banking services and tax preparation and related software. Tax preparation services are also provided in Canada and Australia. Our Tax Services segment comprised 77.2% of our consolidated revenues from continuing operations for fiscal year 2011.

**PRINCIPLES OF CONSOLIDATION –** The consolidated financial statements include the accounts of the Company and our wholly-owned subsidiaries. Intercompany transactions and balances have been eliminated.

Some of our subsidiaries operate in regulated industries and their underlying accounting records reflect the policies and requirements of these industries.

**MANAGEMENT ESTIMATES –** The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) 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. Significant estimates, assumptions and judgments are applied in the determination of our allowance for loan losses, potential losses from loan repurchase and indemnity obligations associated with our discontinued mortgage business, contingent losses associated with pending litigation, fair value of reporting units, valuation allowances based on future taxable income, reserves for uncertain tax positions, credit losses on receivable balances and related matters. Estimates have been prepared on the basis of the most current and best information available as of each balance sheet date. As such, actual results could differ materially from those estimates.

**CONCENTRATIONS OF RISK –** The overall credit quality of our mortgage loans held for investment is impacted by the strength of the U.S. economy and local economies. Our mortgage loans held for investment include concentrations of loans to borrowers in certain states, 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 59% of our mortgage loan portfolio consists of loans to borrowers located in the states of Florida, California, New York and Wisconsin.

**CASH AND CASH EQUIVALENTS –** Cash and cash equivalents include cash on hand, cash due from banks and federal funds sold. For purposes of the consolidated balance sheets and consolidated statements of cash flows, all non-restricted highly liquid instruments purchased with an original maturity of three months or less are considered to be cash equivalents. We present cash flow activities utilizing the indirect method. Book overdrafts included in accounts payable totaled $38.8 million and $35.9 million at April 30, 2011 and 2010, respectively.

**CASH AND CASH EQUIVALENTS – RESTRICTED –** Cash and cash equivalents — restricted consists primarily of cash held by H&R Block Bank (HRB Bank) required for regulatory compliance and cash held by our captive insurance subsidiary that will be used to pay claims.

**RECEIVABLES AND RELATED ALLOWANCES –** Receivables consist primarily of accounts receivable from customers of our Business Services segment and receivables from tax clients for tax return preparation. The allowance for doubtful accounts for these receivables requires management's judgment regarding collectibility and current economic conditions to establish an amount considered by management to be adequate to cover estimated losses as of the balance sheet date. Business Services accounts receivable are charged-off primarily when we determine that the specific customer does not have the ability to repay the balance in full. Receivables from tax clients for tax return preparation are not specifically identified and charged off, but are evaluated on a pooled basis. At the end of each tax season the outstanding balances on these receivables are evaluated based on collections received and expected collections over subsequent tax seasons.

Our financing receivables consist primarily of mortgage loans held for investment, Emerald Advance lines of Credit (EAs), tax client receivables related to refund anticipation loans (RALs) and loans made to franchisees.

**Emerald Advance lines of credit.** EAs are offered to clients in tax offices from late November through mid-January, currently in an amount not to exceed $1,000. If the borrower meets certain criteria as agreed in the loan terms, the line of credit can be increased and utilized year-round. These lines of credit are offered by HRB Bank.

Interest income on EAs is calculated using the average daily balance method and is recognized based on the principal amount outstanding until the outstanding balance is paid or becomes delinquent. Loan commitment fees on EAs, net of related expenses, are initially deferred and recognized as revenue over the commitment period, which is typically two months. EAs balances are due on February 15th, and any amounts unpaid by that date are placed on non-accrual status. Payments on past due amounts are recorded as a reduction in the receivable balance.

We review the credit quality of these receivables based on pools, which are segregated by the year of origination. Specific bad debt rates are applied to each pool, as well as to those who maintain their loan year-round.

We determine our allowance for these receivables collectively, based on a review of receipts taking into consideration historical experience. These receivables are not specifically identified and charged-off, but are evaluated on a pooled basis. Initial bad debt rates also consider whether the loan was made to a new or repeat client. At the end of each tax season the outstanding balances on these receivables are evaluated based on collections received and expected collections over subsequent tax seasons. We adjust our allowance accordingly, with these adjustments reflected as bad debt expense.

**Tax client receivables related to RALs.** Historically, RALs were offered in our US retail tax offices through a contractual relationship with HSBC Holdings plc (HSBC). We purchased a 49.9% participation interest in all RALs obtained through our retail offices. In December 2010, HSBC terminated its contract with us based on restrictions placed on HSBC by its regulator and RALs were not offered in our tax offices this tax season. In connection with the contract termination, we obtained the remaining rights to collect on the outstanding balances of RALs originated in years 2006 and later. All tax client receivables related to RALs outstanding at April 30, 2011 were originated prior to fiscal year 2011 and are past due. We do not accrue interest on these receivables. Payments on past due amounts are recorded as a reduction in the receivable balance.

We review the credit quality of these receivables based on pools, which are segregated by the year of origination, with specific bad debt rates applied to each pool.

These receivables are not specifically identified and charged-off, but are evaluated on a pooled basis. At the end of each tax season the outstanding balances on these receivables are evaluated based on collections received and expected collections over subsequent tax seasons. We adjust our allowance accordingly, with these adjustments reflected as bad debt expense.

**Loans made to franchisees.** Interest income on loans made to franchisees is calculated using the average daily balance method and is recognized based on the principal amount outstanding until the outstanding balance is paid or written off. Loans made to franchisees totaled $172.6 million at April 30, 2011, and consisted of $125.1 million in term loans made to finance the purchase of franchises and $47.5 million in revolving lines of credit made to existing franchisees primarily for the purpose of funding their off-season needs. The credit quality of these receivables is determined on a specific franchisee basis, taking into account the franchisee's credit score, their payment history on existing loans and operational amounts due to us, the loan-to-value ratio and debt-to-income ratio. Credit scores, loan-to-value and debt-to-income ratios are obtained at the time of underwriting. Payment history is monitored on a regular basis. We believe all loans to franchisees are of similar credit quality. Loans are evaluated for impairment when they become delinquent. Amounts deemed to be uncollectible are written off to bad debt expense and bad debt related to these loans has typically been insignificant. Additionally, the franchise office serves as collateral for the loan. In the event the franchisee is unable to repay the loans, we revoke their franchise rights, write off the remaining balance of the loans and assume control of the office. As of April 30, 2011, loans totaling $0.1 million were past due, however we had no loans to franchisees on non-accrual status.

**MORTGAGE LOANS HELD FOR INVESTMENT** – Mortgage loans held for investment represent loans originated or acquired with the ability and current intent to hold to maturity. Loans held for investment are carried at amortized cost adjusted for charge-offs, net of allowance for loan losses, deferred fees or costs on originated loans and unamortized premiums or discounts on purchased loans. Loan fees and certain direct loan origination costs are deferred and the net fee or cost is recognized in interest income over the life of the related loan. Unearned income, premiums and discounts on purchased loans are amortized or accreted into income over the estimated life of the loan using methods that approximate the interest method based on assumptions regarding the loan portfolio, including prepayments adjusted to reflect actual experience.

We record an allowance representing our estimate of credit losses inherent in the loan portfolio at the balance sheet date. Loan recoveries and the provision for credit losses increase the allowance, while loan charge-offs decrease the allowance. A current assessment of the value of the loan's underlying collateral is made when the loan is no later than 60 days past due and any loan balance in excess of the value less costs to sell the property is included in the provision for credit losses.

We evaluate mortgage loans less than 60 days past due on a pooled basis and record a loan loss allowance for those loans in the aggregate. We stratify these loans based on our view of risk associated with various elements of the pool and assign estimated loss rates based on those risks. 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), and are primarily based on historical experience and our assessment of economic and market conditions.

Loans are considered impaired when we believe it is probable we will be unable to collect all principal and interest due according to the contractual terms of the note, or when the loan is 60 days past due. Impaired loans are

reviewed individually and a specific loan loss allowance is recorded based on the fair value of the underlying collateral.

We classify loans as non-accrual when full and timely collection of interest or principal becomes uncertain, or when they are 90 days past due. Interest previously accrued, but not collected, is reversed against current interest income when a loan is placed on non-accrual status. Accretion of deferred fees is discontinued for non-accrual loans. Payments received on non-accrual loans are recognized as interest income when the loan is considered collectible and applied to principal when it is doubtful that all contractual payments will be collected. Loans are not placed back on accrual status until collection of principal and interest is reasonably assured as a result of the borrower bringing the loan into compliance with the contractual terms of the loan. Prior to restoring a loan to accrual status, management considers a borrower's prospects for continuing future contractual payments.

From time to time, as part of our loss mitigation process, we may agree to modify the contractual terms of a borrower's loan. We have developed loan modification programs designed to help borrowers refinance adjustable-rate mortgage loans prior to rate reset or who may otherwise have difficulty making their payments. 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). We may consider the borrower's payment status and history, the borrower's ability to pay upon a rate reset on an adjustable-rate mortgage, the size of the payment increase upon a rate reset, the period of time remaining prior to the rate reset and other relevant factors in determining whether a borrower is experiencing financial difficulty. A borrower who is current may be deemed to be experiencing financial difficulty in instances where the evidence suggests an inability to pay based on the original terms of the loan after the interest rate reset and, in the absence of a modification, may default on the loan. We evaluate whether the modification represents a concession we would not otherwise consider, such as a lower interest rate than what a new borrower of similar credit risk would be offered. A loan modified in a troubled debt restructuring, including a loan that was current at the time of modification, is placed on non-accrual status until we determine future collection of principal and interest is reasonably assured, which generally requires the borrower to demonstrate a period of performance according to the restructured terms. At the time of the modification, we record impairment for TDR loans equal to the difference between the principal balance of the loan and the present value of expected future cash flows discounted at the loan's effective interest rate. However, if we later assess that foreclosure of a modified loan is probable, we record impairment based on the estimated fair value of the underlying collateral.

**REAL ESTATE OWNED** – Real estate owned (REO) includes foreclosed properties securing mortgage loans. Foreclosed assets are adjusted to fair value less costs to sell upon transfer of the loans to REO. Subsequently, REO is carried at the lower of carrying value or fair value less costs to sell. Fair value is generally based on independent market prices or appraised values of the collateral. Subsequent holding period losses and losses arising from the sale of REO are expensed as incurred. REO is included in prepaid expenses and other current assets in the consolidated balance sheets.

**INVESTMENTS** – Investments include both available-for-sale marketable securities and investments held-to-maturity. These investments are included in other assets in the consolidated balance sheets.

**Available-for-Sale.** Marketable securities we hold are classified as available-for-sale (AFS) and are reported at fair value. Unrealized gains and losses are calculated using the specific identification method and reported, net of applicable taxes, as a component of accumulated other comprehensive income. Realized gains and losses on the sale of these securities are determined using the specific identification method.

We monitor our AFS investment portfolio for impairment and consider many factors in determining whether the impairment is deemed to be other-than-temporary. These factors include, but are not limited to, the length of time the security has had a market value less than the cost basis, the severity of loss, our intent to sell, including regulatory or contractual requirements to sell, recent events specific to the issuer or industry, external credit ratings and recent downgrades in such ratings.

For investments in mortgage-backed securities, amortization of premiums and accretion of discounts are recognized in interest income using the interest method, adjusted for anticipated prepayments where applicable. We update our estimates of expected cash flows periodically and recognize changes in calculated effective yields as appropriate.

**Held-to-Maturity.** Our investment in the stock of the Federal Home Loan Bank (FHLB) is carried at cost, as it is a restricted security, which is required to be maintained by HRB Bank for borrowing availability. The cost of the stock represents its redemption value, as there is no ready market value.

**PROPERTY AND EQUIPMENT** – Buildings and equipment are initially recorded at cost and are depreciated over the estimated useful life of the assets using the straight-line method. Leasehold improvements are initially recorded at cost and are amortized over the lesser of the term of the respective lease or the estimated useful life,

using the straight-line method. Estimated useful lives are 15 to 40 years for buildings, 3 to 5 years for computers and other equipment and up to 8 years for leasehold improvements.

We capitalize certain allowable costs associated with software developed or purchased for internal use. These costs are typically amortized over 36 months using the straight-line method.

Substantially all of the operations of our subsidiaries are conducted in leased premises. For all lease agreements, including those with escalating rent payments or rent holidays, we recognize rent expense on a straight-line basis.

**INTANGIBLE ASSETS AND GOODWILL –** We test goodwill and other indefinite-life intangible assets for impairment annually or more frequently, whenever events occur or circumstances change which would, more likely than not, reduce the fair value of a reporting unit below its carrying value. The first step of the impairment test is to compare the estimated fair value of the reporting unit to its carrying value. If the carrying value is less than fair value, no impairment exists. If the carrying value is greater than fair value, a second step is performed to determine the fair value of goodwill and the amount of impairment loss, if any.

In addition, long-lived assets, including intangible assets with finite lives, are assessed for impairment whenever events or circumstances indicate the carrying value may not be fully recoverable by comparing the carrying value to future undiscounted cash flows. Impairment is recorded for long-lived assets determined not to be fully recoverable equal to the excess of the carrying amount of the asset over its estimated fair value.

We recorded a $22.7 million goodwill impairment related to our RedGear reporting unit within our Tax Services segment in fiscal year 2011. We recorded a $15.0 million goodwill impairment related to our RSM EquiCo, Inc. (RSM EquiCo) reporting unit within our Business Services segment in fiscal year 2010 and a $2.2 million goodwill impairment for a reporting unit within our Tax Services segment in fiscal year 2009. No material impairment adjustments to other intangible assets or other long-lived assets of continuing operations were made during the three-year period ended April 30, 2011.

The weighted-average life of intangible assets with finite lives is 26 years. Intangible assets are typically amortized over the estimated useful life of the assets using the straight-line method.

**COMMERCIAL PAPER –** During the year we issued commercial paper to finance temporary liquidity needs and various financial activities. There was no commercial paper outstanding at April 30, 2011 or 2010.

**MORTGAGE LOAN REPURCHASE LIABILITY –** In connection with the securitization and sale of loans, Sand Canyon Corporation (SCC) made certain representations and warranties, including, but not limited to, representations relating to matters such as ownership of the loan, validity of lien securing the loan, and the loan's compliance with SCC's underwriting criteria. Representations and warranties in whole loan sale transactions to institutional investors included a "knowledge qualifier" which limits SCC liability for borrower fraud to those instances where SCC had knowledge of the fraud at the time the loans were sold. In the event that there is a breach of a representation and warranty and such breach materially and adversely affects the value of a mortgage loan, SCC may be obligated to repurchase a loan or otherwise indemnify certain parties for losses incurred as a result of loan liquidation. Generally, these representations and warranties are not subject to a stated term, but would be subject to statutes of limitation applicable to the contractual provisions.

SCC estimates losses relating to representation and warranty claims by estimating loan repurchase and indemnification obligations on both known claims and projections of future claims. Projections of future claims are based on an analysis that includes a combination of reviewing repurchase demands and actual defaults and loss severities, inquiries from various third-parties, the terms and provisions of related agreements and the historical rate of repurchase and indemnification obligations related to breaches of representations and warranties. SCC's methodology for calculating this liability considers the likelihood that individual counterparties will assert future claims. The repurchase liability is included in accounts payable, accrued expenses and other current liabilities on our consolidated balance sheets.

**LITIGATION –** It is our policy to routinely assess the likelihood of any adverse judgments or outcomes related to legal matters, as well as ranges of probable losses. A determination of the amount of the reserves required, if any, for these contingencies is made after analysis of each known issue and an analysis of historical experience. We record reserves related to certain legal matters for which we believe it is probable that a loss will be incurred and the range of such loss can be estimated. With respect to other matters, management has concluded that a loss is only reasonably possible or remote, or not estimable and, therefore, no liability is recorded. Management discloses the facts regarding material matters, and potential exposure if determinable, for losses assessed as reasonably possible to occur. Costs incurred with defending claims are expensed as incurred. Any receivable for insurance recoveries is recorded separately from the corresponding litigation reserve, and only if recovery is determined to be probable.

**INCOME TAXES –** We account for income taxes under the asset and liability method, which requires us to record deferred income tax assets and liabilities for future tax consequences attributable to differences between the

financial statement carrying value of existing assets and liabilities and their respective tax basis. Deferred taxes are determined separately for each tax-paying component within each tax jurisdiction based on provisions of enacted tax law. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Our deferred tax assets include capital loss and state and foreign tax loss carry-forwards and are reduced by a valuation allowance if, based on available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Our current deferred tax assets are included in prepaid expenses and other current assets in the consolidated balance sheets. Noncurrent deferred tax assets are included in other assets on our consolidated balance sheets. Noncurrent deferred tax liabilities are included in other noncurrent liabilities on our consolidated balance sheets.

We evaluate the sustainability of each uncertain tax position based on its technical merits. If we determine it is more likely than not a tax position will be sustained based on its technical merits, we record the impact of the position in our consolidated financial statements at the largest amount that is greater than fifty percent likely of being realized upon ultimate settlement. We record no tax benefit for tax positions where we have concluded it is not more likely than not to be sustained. Differences between a tax position taken or expected to be taken in our tax returns and the amount of benefit recognized and measured in the financial statements result in unrecognized tax benefits, which are recorded in the balance sheet as either a liability for unrecognized tax benefits or reductions to recorded tax assets, as applicable.

We file a consolidated federal tax return on a calendar year basis and state tax returns on a consolidated or combined basis, as permitted by authorities. We report interest and penalties as a component of income tax expense.

**TREASURY SHARES** – Shares of common stock repurchased by us are recorded, at cost, as treasury shares and result in a reduction of stockholders' equity. We reissue treasury shares as part of our stock-based compensation programs or for acquisitions. When shares are reissued, we determine the cost using the average cost method. Periodically, we may permanently retire shares held in treasury as determined by our Board of Directors.

**REVENUE RECOGNITION** – Service revenues consist primarily of fees for preparation and filing of tax returns, both in offices and through our online programs, fees associated with our Peace of Mind (POM) guarantee program and fees for consulting services. Service revenues are recognized in the period in which the service is performed as follows:

- Retail and online tax preparation revenues are recorded when a completed return is filed or accepted by the customer.
- POM revenues are deferred and recognized over the term of the guarantee, based on historical and actual payment of claims.
- Revenues for services rendered in connection with the Business Services segment include fees based on time and materials, which are recognized as the services are performed and amounts are earned.
- Revenues associated with our H&R Block Prepaid Emerald MasterCard® program consist of interchange income from the use of debit cards and fees from the use of ATM networks. Interchange income is a fee paid by a merchant bank to the card-issuing bank through the interchange network, and is based on cardholder purchase volumes. Interchange income is recognized as earned.

Product and other revenues in the current year include royalties from franchisees and sales of software products, and are recognized as follows:

- Upon granting of a franchise, franchisees pay a refundable deposit generally in the amount of $2,500, but pay no initial franchise fee. We record the payment as a deposit liability and recognize no revenue in connection with the initial granting of a franchise. Franchise royalties, which are based on contractual percentages of franchise revenues, are recorded in the period in which the franchise provides the service.
- Software revenues consist mainly of tax preparation software. Revenue from the sale of software such as H&R Block At Hometm is recognized when the product is sold to the end user, either through retail, online or other channels. Rebates, slotting fees and other incentives paid in connection with these sales are recorded as a reduction of revenue. Revenue from the sale of TaxWorks® software is deferred and recognized over the period for which upgrades and support are provided to the customer.
- In fiscal years 2010 and 2009, loan participation revenue was recognized over the life of the loan.

Interest income consists primarily of interest earned on mortgage loans held for investment and EAs and is recognized as follows:

- Interest income on mortgage loans held for investment includes deferred origination fees and costs and purchase discounts and premiums, which are amortized to income over the life of the loan using the interest method.
- Interest income on EAs is calculated using the average daily balance method and is recognized based on the principal amount outstanding until the outstanding balance is paid or written-off.

- Loan commitment fees, net of related expenses, are initially deferred and recognized as revenue over the commitment period.

Revenue recognition is evaluated separately for each unit in multiple-deliverable arrangements. Sales tax we collect and remit to taxing authorities is recorded net in our consolidated income statements.

**ADVERTISING EXPENSE** – Advertising costs for radio and television ads are expensed the first time the advertisement takes place, with print and mailing advertising expensed as incurred. Total advertising costs of continuing operations for fiscal years 2011, 2010 and 2009 totaled $264.2 million, $254.8 million and $249.2 million, respectively.

**GAINS ON SALES OF TAX OFFICES** – We periodically sell company-owned tax offices to franchisees. These sales can be financed by franchisees through loans offered by an affiliated company, which we consolidate. Gains are recorded upon determination that collection of the sales proceeds is reasonably assured. Gains are initially deferred when they are financed with these loans and are recognized after minimum payments and equity thresholds are met. Gains are reported in operating income due to their recurring nature, and are included as a reduction of selling, general and administrative expenses in our consolidated income statements.

**EMPLOYEE BENEFIT PLANS** – We have 401(k) defined contribution plans covering all full-time and seasonal employees following the completion of an eligibility period. Contributions of our continuing operations to these plans are discretionary and totaled $22.3 million, $24.0 million and $26.7 million for fiscal years 2011, 2010 and 2009, respectively.

We have a severance policy covering all regular full-time or part-time active employees for involuntary separation from the company. In May 2010 we announced plans to realign field and support organizations. The realignment included approximately 400 staff reductions. Associated severance benefits were recorded primarily during the first fiscal quarter of 2011 and totaled $29.6 million.

**FOREIGN CURRENCY TRANSLATION** – Assets and liabilities of foreign subsidiaries are translated into U.S. dollars at exchange rates prevailing at the end of the year. Revenues and expenses of our foreign operations are translated at the average exchanges rates in effect during the fiscal year. Translation adjustments are recorded as a separate component of other comprehensive income in stockholders' equity.

**COMPREHENSIVE INCOME** – Our comprehensive income is comprised of net income, foreign currency translation adjustments and the change in net unrealized gains or losses on AFS marketable securities. Included in stockholders' equity at April 30, 2011 and 2010, the net unrealized holding gain on AFS securities was $0.5 million and $0.3 million, respectively, and the foreign currency translation adjustment was $10.8 million and $1.3 million, respectively.

**NEW ACCOUNTING STANDARDS** – In April 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2011-02, "Receivables (Topic 310) — A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring." This guidance assists in determining if a loan modification qualifies as a TDR and requires that creditors must determine that a concession has been made and the borrower is having financial difficulties. This guidance is effective beginning with our fiscal year 2012. As a result of applying this guidance, we may identify loans that are newly considered impaired, however we believe this guidance will not have a material effect on our consolidated financial statements.

In October 2009, the FASB issued Accounting Standards Update 2009-13, "Revenue Recognition (Topic 605) — Multiple-Deliverable Revenue Arrangements." This guidance amends the criteria for separating consideration in multiple-deliverable arrangements to enable vendors to account for products or services (deliverables) separately rather than as a combined unit. This guidance establishes a selling price hierarchy for determining the selling price of a deliverable, which is based on: (1) vendor-specific objective evidence; (2) third-party evidence; or (3) estimates. This guidance also eliminates the residual method of allocation and requires that arrangement consideration be allocated at the inception of the arrangement to all deliverables using the relative selling price method. In addition, this guidance significantly expands required disclosures related to a vendor's multiple-deliverable revenue arrangements. This guidance is effective prospectively for revenue arrangements entered into or materially modified beginning with our fiscal year 2012. We believe this guidance will not have a material effect on our consolidated financial statements.

In December 2010, the FASB issued Accounting Standards Update 2010-28, "Intangibles — Goodwill and Other (Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts." The amendments affect reporting units whose carrying amount is zero or negative, and require performance of Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, a reporting unit would consider whether there are any adverse qualitative factors indicating that an impairment may exist. The qualitative factors are consistent with existing guidance. The reporting unit would evaluate if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its

carrying amount. This guidance is effective beginning with our fiscal year 2012. We believe this guidance will not have a material effect on our consolidated financial statements.

**STANDARDS IMPLEMENTED –** In July 2010 the FASB issued Accounting Standards Update 2010-20, "Disclosures About Credit Quality of Financing Receivables and Allowance for Credit Losses." This guidance requires enhanced disclosures about the allowance for credit losses and the credit quality of financing receivables and would apply to financing receivables held by all creditors. The requirements for period end disclosures are effective beginning with the first interim or annual reporting period ending after December 15, 2010. The requirements for activity-based disclosures were effective for our fourth quarter. The new disclosures are included in notes 1, 5 and 6. The requirements for TDR disclosures are effective for our first quarter of fiscal year 2012.

In June 2009, the FASB issued revised authoritative guidance associated with the consolidation of variable interest entities (VIEs). The revised guidance replaced the previous quantitative-based assessment for determining whether an enterprise is the primary beneficiary of a VIE and focuses primarily on a qualitative assessment. This assessment requires identifying the enterprise that has (1) the power to direct the activities of the VIE that can most significantly impact the entity's performance; and (2) the obligation to absorb losses and the right to receive benefits from the VIE that could potentially be significant to such entity. The revised guidance also requires that the enterprise continually reassess whether it is the primary beneficiary of a VIE rather than conducting a reassessment only upon the occurrence of specific events. We implemented this guidance on May 1, 2010 and evaluated our financial interests to determine if we had interests in VIEs and if we are the primary beneficiary of the VIE. See note 17 for additional information on our VIEs.

In June 2009, the FASB issued guidance, under Topic 860 — Transfers and Servicing. This guidance requires more disclosure about transfers of financial assets, including securitization transactions, and where entities have continuing exposure to the risks related to transferred financial assets. It eliminates the concept of a qualifying special purpose entity and changes the requirements for derecognizing financial assets. We adopted this guidance as of May 1, 2010 and it did not have a material effect on our consolidated financial statements.

## NOTE 2: BUSINESS COMBINATIONS AND DISPOSALS

Effective July 20, 2010, our Business Services segment acquired certain non-attest assets and liabilities of Caturano & Company, Inc. (Caturano), a Boston-based accounting firm, for an aggregate purchase price of $40.2 million. We expect this acquisition to expand our presence in the Boston market. We made cash payments of $32.6 million, including $29.8 million at closing. Payment of the remaining purchase price is deferred and will be paid over the next 13 years. The following table summarizes the fair value of identifiable assets acquired and liabilities assumed and the resulting goodwill:

| | (in 000s) |
|---|---|
| Customer relationships(1) | $ 6,733 |
| Non-compete agreements(2) | 2,766 |
| Attest firm affiliation(3) | 7,629 |
| Goodwill | 27,289 |
| Fixed assets | 2,500 |
| Other assets | 831 |
| Other liabilities | (1,640) |
| Unfavorable leasehold(2) | (5,890) |
| Total purchase price | $ 40,218 |

(1) Estimated life of 12 years.
(2) Estimated life of 7 years.
(3) Estimated life of 18 years. Represents the benefits to be received from the Alternative Practice Structure arrangement and affiliation with attest clients.

In connection with the acquisition a deferred compensation plan, an employee retention program and a performance bonus plan were put in place for eligible employees. Expenses related to these plans will be treated as compensation and will be expensed as incurred. We incurred expenses totaling $2.6 million under these plans during fiscal year 2011.

In October 2010, we signed a definitive merger agreement to acquire all of the outstanding shares of 2SS Holdings, Inc. ("2SS"), developer of TaxACT digital tax preparation solutions, for $287.5 million in cash. Completion of the transaction is subject to the satisfaction of customary closing conditions, including regulatory approval. In May 2011, the United States Department of Justice (the "DOJ") filed a civil antitrust lawsuit to block our proposed acquisition of 2SS. On June 21, 2011, the parties to the merger agreement signed an

amendment to the merger agreement. There are no assurances that the DOJ's lawsuit will be resolved in our favor or that the transaction will be consummated.

During fiscal years 2011, 2010 and 2009, we sold certain retail tax offices to existing franchisees for cash proceeds of $65.6 million, $65.7 million and $16.9 million, respectively, and recorded gains on these sales of $45.1 million, $49.0 million and $14.9 million, respectively.

Effective November 3, 2008, we acquired the assets and franchise rights of our last major independent franchise operator for an aggregate purchase price of $279.2 million. Goodwill recognized on this transaction is included in the Tax Services segment and is deductible for tax purposes.

During fiscal years 2011, 2010 and 2009, we made other acquisitions, which were accounted for as purchases with cash payments totaling $19.1 million, $10.3 million and $12.6 million, respectively. Operating results of the acquired businesses, which are not material, are included in the consolidated income statements since the date of acquisition. During fiscal years 2011, 2010 and 2009 we also paid $2.5 million, $0.2 million and $1.9 million, respectively, for contingent payments on prior acquisitions.

## NOTE 3: EARNINGS PER SHARE

Basic and diluted earnings per share is computed using the two-class method. The two-class method is an earnings allocation formula that determines net income per share for each class of common stock and participating security according to dividends declared and participation rights in undistributed earnings. Per share amounts are computed by dividing net income from continuing operations attributable to common shareholders by the weighted average shares outstanding during each period. The computations of basic and diluted earnings per share from continuing operations are as follows:

(in 000s, except per share amounts)

| Year Ended April 30, | 2011 | 2010 | 2009 |
|---|---|---|---|
| Net income from continuing operations attributable to shareholders | $ 419,405 | $ 488,946 | $ 513,055 |
| Amounts allocated to participating securities (nonvested shares) | (1,085) | (1,888) | (2,042) |
| Net income from continuing operations attributable to common shareholders | $ 418,320 | $ 487,058 | $ 511,013 |
| Basic weighted average common shares | 309,230 | 332,283 | 332,787 |
| Potential dilutive shares | 547 | 953 | 1,752 |
| Dilutive weighted average common shares | 309,777 | 333,236 | 334,539 |
| Earnings per share from continuing operations attributable to common shareholders: | | | |
| Basic | $ 1.35 | $ 1.47 | $ 1.53 |
| Diluted | 1.35 | 1.46 | 1.53 |

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 12.8 million, 13.7 million and 15.7 million shares of stock for fiscal years 2011, 2010 and 2009, respectively, as the effect would be antidilutive.

## NOTE 4: INVESTMENTS

**AVAILABLE-FOR-SALE** – The amortized cost and fair value of securities classified as available-for-sale held at April 30, 2011 and 2010 are summarized below:

(in 000s)

| As of April 30, | 2011 | | | | 2010 | | | |
|---|---|---|---|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses(1) | Fair Value | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses(1) | Fair Value |
| Mortgage-backed securities | $ 157,970 | $ 401 | $ (194) | $ 158,177 | $ 23,026 | $ 39 | $ (49) | $ 23,016 |
| Municipal bonds | 8,335 | 405 | – | 8,740 | 8,442 | 459 | – | 8,901 |
| Trust preferred security | – | – | – | – | 1,854 | – | (1,823) | 31 |
| | $ 166,305 | $ 806 | $ (194) | $ 166,917 | $ 33,322 | $ 498 | $ (1,872) | $ 31,948 |

(1) At April 30, 2011, we had no investments that had been in a continuous loss position for more than twelve months. At April 30, 2010, investments with a cost of $15.7 million and gross unrealized losses of $1.9 million had been in a continuous loss position for more than twelve months.

We did not sell any AFS securities in fiscal year 2011. Proceeds from the sales of AFS securities were $2.1 million and $8.3 million during fiscal years 2010 and 2009, respectively. We recorded no gross realized gains or losses on those sales during fiscal year 2010. Gross realized gains on sales during fiscal year 2009 were $0.7 million; gross realized losses were $1.3 million. During fiscal years 2011, 2010 and 2009, we recorded other-than-temporary

impairments of AFS securities totaling $1.9 million, $1.6 million and $1.5 million, respectively, as a result of an assessment that it was probable we would not collect all amounts due or an assessment that we would not be able to hold the investments until potential recovery of market value.

Contractual maturities of AFS debt securities at April 30, 2011, occur at varying dates over the next 30 years, and are set forth in the table below.

(in 000s)

| | Cost Basis | Fair Value |
|---|---|---|
| Maturing in: | | |
| Less than one year | $ 3,023 | $ 3,081 |
| Two to five years | 3,112 | 3,331 |
| Six to ten years | 2,200 | 2,328 |
| Beyond | 157,970 | 158,177 |
| | $ 166,305 | $ 166,917 |

**HELD-TO-MATURITY** – HRB Bank is required to maintain a restricted investment in FHLB stock for borrowing availability. The cost of this investment, $3.3 million and $6.0 million at April 30, 2011 and 2010, respectively, represents its redemption value at each balance sheet date, as these investments do not have a ready market.

## NOTE 5: RECEIVABLES

Short-term receivables consist of the following:

(in 000s)

| As of April 30, | 2011 | 2010 |
|---|---|---|
| Business Services receivables | $ 281,847 | $ 326,681 |
| Loans to franchisees | 62,181 | 55,047 |
| Receivables for tax preparation and related fees | 38,930 | 45,248 |
| Emerald Advance lines of credit | 31,645 | 57,914 |
| Royalties from franchisees | 11,645 | 3,845 |
| Tax client receivables related to RALs | 2,412 | 21,646 |
| Other | 131,096 | 120,080 |
| | 559,756 | 630,461 |
| Allowance for doubtful accounts | (67,466) | (112,475) |
| | $ 492,290 | $ 517,986 |

The short-term portion of EAs, tax client receivables related to RALs and loans made to franchisees is included in receivables, while the long-term portion is included in other assets in the consolidated financial statements. These amounts as of April 30, 2011 are as follows:

(in 000s)

| | Emerald Advance Lines of Credit | Tax Client Receivables - RALs | Loans to Franchisees |
|---|---|---|---|
| Short-term | $ 31,645 | $ 2,412 | $ 62,181 |
| Long-term | 21,619 | 5,855 | 110,420 |
| | $ 53,264 | $ 8,267 | $ 172,601 |

We review the credit quality of our EA receivables and tax client receivables related to RALs based on pools, which are segregated by the year of origination, with older years being deemed more unlikely to be repaid. These amounts as of April 30, 2011, by year of origination, are as follows:

(in 000s)

| | Emerald Advance Lines of Credit | Tax Client Receivables - RALs |
|---|---|---|
| Credit Quality Indicator – Year of origination: | | |
| 2011 | $ 28,800 | $ – |
| 2010 | 5,236 | 446 |
| 2009 | 4,443 | 2,270 |
| 2008 and prior | 2,722 | 5,551 |
| Revolving loans | 12,063 | – |
| | $ 53,264 | $ 8,267 |

As of April 30, 2011, $46.8 million of EAs were on non-accrual status and classified as impaired, or more than 60 days past due. All tax client receivables related to RALs are considered impaired.

Our allowance for doubtful accounts consists of the following:

(in 000s)

| As of April 30, | 2011 | 2010 |
|---|---|---|
| Allowance related to: | | |
| Emerald Advance lines of credit | $ 4,400 | $ 35,239 |
| Tax client receivables related to RALs | – | 12,191 |
| Loans to franchisees | – | 4 |
| All other receivables | 63,066 | 65,041 |
| | $ 67,466 | $ 112,475 |

Activity in the allowance for doubtful accounts for the years ended April 30, 2011, 2010 and 2009 is as follows:

(in 000s)

| | Emerald Advance Lines of Credit | Tax Client Receivables - RALs | Loans to Franchisees | All Other | Total |
|---|---|---|---|---|---|
| Balance as of May 1, 2008 | $ 31,393 | $ 17,398 | $ 4 | $ 71,360 | $ 120,155 |
| Provision | 42,875 | 14,144 | – | 59,155 | 116,174 |
| Recoveries | – | – | – | 315 | 315 |
| Charge-offs | (31,393) | (17,406) | – | (59,304) | (108,103) |
| Balance as of April 30, 2009 | $ 42,875 | $ 14,136 | $ 4 | $ 71,526 | $ 128,541 |
| Provision | 33,919 | 12,193 | – | 65,642 | 111,754 |
| Recoveries | – | – | – | 534 | 534 |
| Charge-offs | (41,555) | (14,138) | – | (72,661) | (128,354) |
| Balance as of April 30, 2010 | $ 35,239 | $ 12,191 | $ 4 | $ 65,041 | $ 112,475 |
| Provision | 91,546 | 2 | – | 52,716 | 144,264 |
| Recoveries | – | – | – | 312 | 312 |
| Charge-offs | (122,385) | (12,193) | (4) | (55,003) | (189,585) |
| Balance as of April 30, 2011 | $ 4,400 | $ – | $ – | $ 63,066 | $ 67,466 |

There were no changes to our methodology related to the calculation of our allowance for doubtful accounts during fiscal year 2011.

## NOTE 6: MORTGAGE LOANS HELD FOR INVESTMENT AND RELATED ASSETS

The composition of our mortgage loan portfolio as of April 30, 2011 and 2010 is as follows:

(dollars in 000s)

| As of April 30, | 2011 | | 2010 | |
|---|---|---|---|---|
| | Amount | % of Total | Amount | % of Total |
| Adjustable-rate loans | $ 333,828 | 58% | $ 411,122 | 60% |
| Fixed-rate loans | 239,146 | 42% | 272,562 | 40% |
| | 572,974 | 100% | 683,684 | 100% |
| Unamortized deferred fees and costs | 4,121 | | 5,256 | |
| Less: Allowance for loan losses | (92,087) | | (93,535) | |
| | $ 485,008 | | $ 595,405 | |

Activity in the allowance for loan losses for the years ended April 30, 2011, 2010 and 2009 is as follows:

(in 000s)

| Year Ended April 30, | 2011 | 2010 | 2009 |
|---|---|---|---|
| Balance at beginning of the year | $ 93,535 | $ 84,073 | $ 45,401 |
| Provision | 35,567 | 47,750 | 63,897 |
| Recoveries | 272 | 88 | 54 |
| Charge-offs | (37,287) | (38,376) | (25,279) |
| Balance at end of the year | $ 92,087 | $ 93,535 | $ 84,073 |

Our loan loss allowance as a percent of mortgage loans was 16.1% at April 30, 2011, compared to 13.7% at April 30, 2010.

When determining our allowance for loan losses, we evaluate loans less than 60 days past due on a pooled basis, while loans we consider impaired (which includes those loans more than 60 days past due or that have been modified) are evaluated individually. The balance of these loans and the related allowance is as follows:

(in 000s)

| As of April 30, | 2011 | | 2010 | |
|---|---|---|---|---|
| | Portfolio Balance | Related Allowance | Portfolio Balance | Related Allowance |
| Pooled (less than 60 days past due) | $ 304,325 | $ 11,238 | $ 372,823 | $ 15,924 |
| Impaired: | | | | |
| Individually (TDRs) | 106,328 | 11,056 | 144,977 | 8,915 |
| Individually (60 days or more past due) | 162,321 | 69,793 | 165,884 | 68,696 |
| | $ 572,974 | $ 92,087 | $ 683,684 | $ 93,535 |

We review the credit quality of our portfolio based on the following criteria: (1) originator, (2) the level of documentation obtained for loan at origination, (3) occupancy status of property at origination, (4) geography, and (5) credit score and loan to value at origination. We specifically evaluate each loan and assign an internal risk rating of high, medium or low to each loan. The risk rating is based upon multiple loan characteristics that correlate to delinquency and loss. These characteristics include, but are not limited to, the five criteria listed above. These loan attributes are evaluated quarterly against a variety of additional characteristics to ensure the appropriate data is being utilized to determine the level of risk within the portfolio.

All criteria are obtained at the time of origination and are only subsequently updated if the loan is refinanced.

Our portfolio includes loans originated SCC and purchased by HRB Bank which constitute 62% of the total loan portfolio at April 30, 2011. We have experienced higher rates of delinquency and have greater exposure to loss with respect to this segment of our loan portfolio. Our remaining loan portfolio totaled $215.2 million and is characteristic of a prime loan portfolio, and we believe subject to a lower loss exposure. Detail of our mortgage loans held for investment and the related allowance at April 30, 2011 is as follows:

(dollars in 000s)

| | Outstanding Principal Balance | Loan Loss Allowance Amount | Loan Loss Allowance % of Principal | % 30+ Days Past Due |
|---|---|---|---|---|
| Purchased from SCC | $ 357,814 | $ 81,396 | 22.7% | 41.7% |
| All other | 215,160 | 10,691 | 5.0% | 11.0% |
| | $ 572,974 | $ 92,087 | 16.1% | 30.2% |

Credit quality indicators at April 30, 2011 include the following:

(in 000s)

| Credit Quality Indicators | Purchased from SCC | All Other | Total Portfolio |
|---|---|---|---|
| Occupancy status: | | | |
| Owner occupied | $ 249,048 | $ 136,380 | $ 385,428 |
| Non-owner occupied | 108,766 | 78,780 | 187,546 |
| | $ 357,814 | $ 215,160 | $ 572,974 |
| Documentation level: | | | |
| Full documentation | $ 108,509 | $ 157,270 | $ 265,779 |
| Limited documentation | 11,146 | 23,355 | 34,501 |
| Stated income | 205,485 | 21,705 | 227,190 |
| No documentation | 32,674 | 12,830 | 45,504 |
| | $ 357,814 | $ 215,160 | $ 572,974 |
| Internal risk rating: | | | |
| High | $ 151,522 | $ 357 | $ 151,879 |
| Medium | 206,292 | – | 206,292 |
| Low | – | 214,803 | 214,803 |
| | $ 357,814 | $ 215,160 | $ 572,974 |

Loans given our internal risk rating of “high” are generally originated by SCC, have no documentation or are stated income and are non-owner occupied. Loans given our internal risk rating of “medium” are generally full documentation or stated income, with loan-to-value at origination of more than 80% and have credit scores at

origination below 700. Loans given our internal risk rating of "low" are generally full documentation, with loan-to-value at origination of less than 80% and have credit scores greater than 700.

Detail of the aging of the mortgage loans in our portfolio that are past due as of April 30, 2011 is as follows:

(in 000s)

| | Less than 60 Days Past Due | 60 - 89 Days Past Due | 90 + Days Past Due(1) | Total Past Due | Current | Total |
|---|---|---|---|---|---|---|
| Purchased from SCC | $ 37,371 | $ 4,882 | $ 132,326 | $ 174,579 | $ 183,235 | $ 357,814 |
| All other | 10,250 | 1,594 | 20,546 | 32,390 | 182,770 | 215,160 |
| | $ 47,621 | $ 6,476 | $ 152,872 | $ 206,969 | $ 366,005 | $ 572,974 |

(1) No loans past due 90 days or more are still accruing interest.

Information related to our non-accrual loans is as follows:

(in 000s)

| As of April 30, | 2011 | 2010 |
|---|---|---|
| Loans: | | |
| Purchased from SCC | $ 143,358 | |
| Other | 14,106 | |
| | 157,464 | $ 160,124 |
| TDRs: | | |
| Purchased from SCC | 2,849 | |
| Other | 329 | |
| | 3,178 | 31,506 |
| Total non-accrual loans | $ 160,642 | $ 191,630 |

Information related to impaired loans is as follows:

(in 000s)

| | Portfolio Balance With Allowance | Portfolio Balance With No Allowance | Total Portfolio Balance | Related Allowance |
|---|---|---|---|---|
| As of April 30, 2011: | | | | |
| Purchased from SCC | $ 190,074 | $ 54,000 | $ 244,074 | $ 75,373 |
| Other | 19,340 | 5,235 | 24,575 | 5,476 |
| | $ 209,414 | $ 59,235 | $ 268,649 | $ 80,849 |
| As of April 30, 2010 | $ 288,309 | $ 22,552 | $ 310,861 | $ 77,611 |

Information related to the allowance for impaired loans is as follows:

(in 000s)

| As of April 30, | 2011 | 2010 |
|---|---|---|
| Portion of total allowance for loan losses allocated to impaired loans and TDR loans: | | |
| Based on collateral value method | $ 69,794 | $ 68,696 |
| Based on discounted cash flow method | 11,055 | 8,915 |
| | $ 80,849 | $ 77,611 |

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Information related to activities of our non-performing assets is as follows:

| For the Year Ended April 30, | 2011 | 2010 | 2009 |
|---|---|---|---|
| | | | (in 000s) |
| Average impaired loans: | | | |
| Purchased from SCC | **$ 252,673** | | |
| All other | **37,082** | | |
| | **$ 289,755** | $ 307,351 | $ 216,391 |
| Interest income on impaired loans: | | | |
| Purchased from SCC | **$ 5,795** | | |
| All other | **829** | | |
| | **$ 6,624** | $ 8,548 | $ 5,964 |
| Interest income on impaired loans recognized on a cash basis on non-accrual status: | | | |
| Purchased from SCC | **$ 5,567** | | |
| All other | **744** | | |
| | **$ 6,311** | $ 7,452 | $ 4,927 |

As of April 30, 2011 and 2010, accrued interest receivable on mortgage loans held for investment totaled $2.1 million and $2.6 million, respectively. At April 30, 2011, HRB Bank had interest-only mortgage loans in its investment portfolio totaling $3.7 million.

Our real estate owned includes loans accounted for as in-substance foreclosures of $7.7 million and $12.5 million at April 30, 2011 and 2010, respectively. Activity related to our real estate owned is as follows:

| Year Ended April 30, | 2011 | 2010 | 2009 |
|---|---|---|---|
| | | | (in 000s) |
| Balance, beginning of the period | **$ 29,252** | $ 44,533 | $ 350 |
| Additions | **16,463** | 19,341 | 65,171 |
| Sales | **(21,889)** | (24,308) | (9,072) |
| Impairments | **(4,294)** | (10,314) | (11,916) |
| Balance, end of the period | **$ 19,532** | $ 29,252 | $ 44,533 |

## NOTE 7:ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

We use the following valuation methodologies 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, we use a third-party pricing service to determine fair value and classify the securities as Level 2. The service's pricing model is based on market data and utilizes available trade, bid and other market information. 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.
- Real estate owned – REO includes foreclosed properties securing mortgage loans. Foreclosed assets are adjusted to fair value less costs to sell upon transfer of the loans to REO. Fair value is generally based on independent market prices or appraised values of the collateral. Subsequent holding period losses and losses arising from the sale of REO are expensed as incurred. Because our REO is valued based on significant inputs that are unobservable in the market and our own estimates of assumptions that market participants would use in pricing the asset, these assets are classified as Level 3.
- Impaired mortgage loans held for investment – The fair value of impaired mortgage loans held for investment is generally based on the net present value of discounted cash flows for TDR loans or the appraised value of the underlying collateral for all other loans. These loans are classified as Level 3.

The following table presents for each hierarchy level the assets that were remeasured at fair value on both a recurring and non-recurring basis during fiscal years 2011 and 2010 and the gains (losses) on those remeasurements:

(dollars in 000s)

| | Total | Level 1 | Level 2 | Level 3 | Gain (loss) |
|---|---|---|---|---|---|
| As of April 30, 2011: | | | | | |
| Recurring: | | | | | |
| Mortgage-backed securities | **$ 158,177** | $ – | **$ 158,177** | $ – | **$ 207** |
| Municipal bonds | **8,740** | – | **8,740** | – | **405** |
| Non-recurring: | | | | | |
| REO | **12,366** | – | – | **12,366** | **(1,920)** |
| Impaired mortgage loans held for investment | **90,628** | – | – | **90,628** | **(11,390)** |
| | **$ 269,911** | $ – | **$ 166,917** | **$ 102,994** | **$ (12,698)** |
| As a percentage of total assets | **5.2%** | – % | **3.2%** | **2.0%** | |
| As of April 30, 2010: | | | | | |
| Recurring: | | | | | |
| Mortgage-backed securities | $ 23,016 | $ – | $ 23,016 | $ – | $ (10) |
| Municipal bonds | 8,901 | – | 8,901 | – | 459 |
| Trust preferred security | 31 | – | 31 | – | (1,823) |
| Non-recurring: | | | | | |
| REO | 16,291 | – | – | 16,291 | (4,430) |
| Impaired mortgage loans held for investment | 88,456 | – | – | 88,456 | (9,453) |
| | $ 136,695 | $ – | $ 31,948 | $ 104,747 | $ (15,257) |
| As a percentage of total assets | 2.6% | – % | 0.6% | 2.0% | |

There were no changes to the unobservable inputs used in determining the fair values of our level 2 and level 3 financial assets.

The following methods were used to determine the fair values of our other financial instruments:

- Cash equivalents, accounts receivable, investment in FHLB stock, accounts payable, accrued liabilities, commercial paper borrowings and the current portion of long-term debt – The carrying values reported in the balance sheet for these items approximate fair market value due to the relative short-term nature of the respective instruments.
- Mortgage loans held for investment – The fair value of mortgage loans held for investment is generally determined using market pricing sources based on origination channel and performance characteristics.
- Deposits – The estimated fair value of demand deposits is the amount payable on demand at the reporting date. The estimated fair value of IRAs and other time deposits is estimated by discounting the future cash flows using the rates currently offered by HRB Bank for products with similar remaining maturities.
- Long-term borrowings and FHLB borrowings – The fair value of borrowings is based on rates currently available to us for obligations with similar terms and maturities, including current market rates on our Senior Notes.

The carrying amounts and estimated fair values of our financial instruments at April 30, 2011 are as follows:

(in 000s)

| | Carrying Amount | Estimated Fair Value |
|---|---|---|
| Mortgage loans held for investment | **$ 485,008** | **$ 295,154** |
| Deposits | **863,898** | **865,318** |
| Long-term debt | **1,053,191** | **1,112,886** |
| FHLB advances | **25,000** | **24,998** |

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## NOTE 8: PROPERTY AND EQUIPMENT

The components of property and equipment are as follows:

(in 000s)

| As of April 30, | 2011 | 2010 |
|---|---|---|
| Land and other non-depreciable assets | $ 2,245 | $ 2,482 |
| Buildings | 154,519 | 161,460 |
| Computers and other equipment | 475,351 | 488,160 |
| Capitalized software | 156,108 | 147,104 |
| Leasehold improvements | 191,943 | 199,370 |
| Construction in process | 4,374 | 3,902 |
| | 984,540 | 1,002,478 |
| Less: Accumulated depreciation and amortization | (677,220) | (657,008) |
| | $ 307,320 | $ 345,470 |

During fiscal years 2011 and 2010, we received $6.5 million and $10.3 million, respectively, for tax incentives from certain government agencies related to our corporate headquarters building, which was recorded as a reduction of original cost.

Property and equipment included above and subject to capital lease arrangements included the following:

(in 000s)

| As of April 30, | 2011 | 2010 |
|---|---|---|
| Property and equipment under capital lease | $ 47,842 | $ 47,844 |
| Less accumulated amortization | (35,056) | (31,418) |
| | $ 12,786 | $ 16,426 |

Depreciation and amortization expense of continuing operations for fiscal years 2011, 2010 and 2009 was $92.2 million, $96.9 million and $96.6 million, respectively. Included in depreciation and amortization expense of continuing operations is amortization of capitalized software of $18.8 million, $21.8 million and $23.4 million, respectively.

## NOTE 9: GOODWILL AND INTANGIBLE ASSETS

Changes in the carrying amount of goodwill by segment for the years ended April 30, 2011 and 2010 are as follows:

(in 000s)

| | Tax Services | Business Services | Total |
|---|---|---|---|
| Balance at May 1, 2009: | | | |
| Goodwill | $ 449,779 | $ 402,639 | $ 852,418 |
| Accumulated impairment losses | (2,188) | – | (2,188) |
| | 447,591 | 402,639 | 850,230 |
| Changes: | | | |
| Acquisitions | 5,136 | 1,112 | 6,248 |
| Disposals and foreign currency changes | (1,031) | – | (1,031) |
| Impairments | – | (15,000) | (15,000) |
| Balance at April 30, 2010: | | | |
| Goodwill | 453,884 | 403,751 | 857,635 |
| Accumulated impairment losses | (2,188) | (15,000) | (17,188) |
| | 451,696 | 388,751 | 840,447 |
| Changes: | | | |
| Acquisitions | 15,441 | 28,552 | 43,993 |
| Disposals and foreign currency changes | (10,286) | (5,209) | (15,495) |
| Impairments | (22,700) | – | (22,700) |
| Balance at April 30, 2011: | | | |
| Goodwill | 459,039 | 427,094 | 886,133 |
| Accumulated impairment losses | (24,888) | (15,000) | (39,888) |
| | $ 434,151 | $ 412,094 | $ 846,245 |

Goodwill and other indefinite-life intangible assets were tested for impairment in the fourth quarter of fiscal year 2011. Except as discussed below, no impairment was identified.

The RedGear reporting unit within our Tax Services segment experienced lower than expected revenues, and as a result, we evaluated this reporting unit's goodwill for impairment at January 31, 2011. The measurement of impairment of goodwill consists of two steps. In the first step, we compared the fair value of this reporting unit, determined using discounted cash flows, to its carrying value. As the results of the first test indicated that the fair value was less than its carrying value, we then performed the second step, which was to determine the implied fair value of its goodwill and to compare that to its carrying value. The second step included hypothetically valuing all of the tangible and intangible assets of this reporting unit. As a result, we recorded an impairment of the reporting unit's goodwill of $22.7 million, leaving a remaining goodwill balance of approximately $14 million. The impairment is included in selling, general and administrative expenses on the consolidated statements of income.

We recorded a $15.0 million impairment in our Business Services segment in fiscal year 2010, related to RSM EquiCo, due to declining revenues and profitability.

We recorded a $2.2 million goodwill impairment in our Tax Services segment in fiscal year 2009, which was a result of the closure of a previously acquired business.

The components of intangible assets are as follows:

(in 000s)

| As of April 30, | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|
| | Gross Carrying Amount | Accumulated Amortization | Net | Gross Carrying Amount | Accumulated Amortization | Net |
| Tax Services: | | | | | | |
| Customer relationships | $ 87,624 | $ (41,076) | $ 46,548 | $ 67,705 | $ (33,096) | $ 34,609 |
| Noncompete agreements | 23,456 | (22,059) | 1,397 | 23,062 | (21,278) | 1,784 |
| Reacquired franchise rights | 214,330 | (9,961) | 204,369 | 223,773 | (6,096) | 217,677 |
| Franchise agreements | 19,201 | (3,093) | 16,108 | 19,201 | (1,813) | 17,388 |
| Purchased technology | 14,700 | (8,505) | 6,195 | 14,500 | (6,266) | 8,234 |
| Trade name | 1,325 | (600) | 725 | 1,325 | (400) | 925 |
| Business Services: | | | | | | |
| Customer relationships | 152,079 | (128,738) | 23,341 | 145,149 | (120,037) | 25,112 |
| Noncompete agreements | 35,818 | (24,662) | 11,156 | 33,052 | (22,118) | 10,934 |
| Attest firm affiliation | 7,629 | (318) | 7,311 | – | – | – |
| Trade name – amortizing | 2,600 | (2,600) | – | 2,600 | (2,600) | – |
| Trade name – non-amortizing | 55,637 | (4,868) | 50,769 | 55,637 | (4,868) | 50,769 |
| Total intangible assets | $ 614,399 | $ (246,480) | $ 367,919 | $ 586,004 | $ (218,572) | $ 367,432 |

Amortization of intangible assets of continuing operations for the years ended April 30, 2011, 2010 and 2009 was $29.5 million, $30.0 million and $24.9 million, respectively. Estimated amortization of intangible assets for fiscal years 2012, 2013, 2014, 2015 and 2016 is $27.3 million, $22.8 million, $19.3 million, $14.5 million and $13.1 million, respectively.

In connection with the acquisition of Caturano, as discussed in note 2, we recorded a liability related to unfavorable operating lease terms in the amount of $5.9 million, which will be amortized over the remaining contractual life of the operating lease. The net balance was $5.5 million at April 30, 2011.

## NOTE 10: CUSTOMER BANKING DEPOSITS

The components of customer banking deposits at April 30, 2011 and 2010 and the related interest expense recorded during the periods are as follows:

(in 000s)

| April 30, | 2011 | | 2010 | |
|---|---|---|---|---|
| | Outstanding Balance | Interest Expense | Outstanding Balance | Interest Expense |
| Short-term: | | | | |
| Money-market deposits | $ 164,734 | $ 2,168 | $ 195,220 | $ 1,871 |
| Savings deposits | 11,030 | 107 | 12,460 | 128 |
| Checking deposits: | | | | |
| Interest-bearing | 6,947 | 94 | 24,190 | 83 |
| Non-interest-bearing | 279,296 | – | 200,096 | – |
| | 286,243 | 94 | 224,286 | 83 |
| IRAs and other time deposits: | | | | |
| Due in one year | 49,003 | | 60,349 | |
| IRAs | 341,210 | | 360,240 | |
| | 390,213 | 6,119 | 420,589 | 8,092 |
| | $ 852,220 | $ 8,488 | $ 852,555 | $ 10,174 |
| Long-term: | | | | |
| Due in two years | $ 7,939 | | $ 12,479 | |
| Due in three years | 3,717 | | 6,079 | |
| Due in four years | 16 | | 3,105 | |
| Due in five years | 6 | | 1 | |
| | $ 11,678 | $ – | $ 21,664 | $ – |

Accrued but unpaid interest on deposits totaled $0.2 million at April 30, 2011 and 2010.

Time deposit accounts totaling $7.3 million were in excess of Federal Deposit Insurance Corporation (FDIC) insured limits at April 30, 2011, and mature as follows:

| | (in 000s) |
|---|---|
| Three months or less | $ 480 |
| Three to six months | 2,929 |
| Six to twelve months | 2,011 |
| Over twelve months | 1,883 |
| | $ 7,303 |

## NOTE 11: LONG-TERM DEBT

The components of long-term debt are as follows:

(in 000s)

| As of April 30, | 2011 | 2010 |
|---|---|---|
| Senior Notes, 7.875%, due January 2013 | $ 599,788 | $ 599,664 |
| Senior Notes, 5.125%, due October 2014 | 399,177 | 398,941 |
| Acquisition obligations, due from May 2011 to December 2022 | 43,273 | 28,701 |
| Capital lease obligations | 10,953 | 11,526 |
| | 1,053,191 | 1,038,832 |
| Less: Current portion | (3,437) | (3,688) |
| | $ 1,049,754 | $ 1,035,144 |

On March 4, 2010, we entered into a committed line of credit (CLOC) agreement to support commercial paper issuances, general corporate purposes or for working capital needs. This facility provides funding up to $1.7 billion and matures July 31, 2013. This facility bears interest at an annual rate of LIBOR plus 1.30% to 2.80% or PRIME plus .30% to 1.80% (depending on the type of borrowing) and includes an annual facility fee of .20% to .70% of the committed amounts, based on our credit ratings. Covenants in this facility include: (1) maintenance of a minimum net worth of $650.0 million on the last day of any fiscal quarter; and (2) reduction of the aggregate outstanding principal amount of short-term debt, as defined in the agreement, to $200.0 million or less for thirty consecutive days during the period March 1 to June 30 of each year ("Clean-down requirement"). At April 30, 2011, we were in

compliance with these covenants and had net worth of $1.4 billion. We had no balance outstanding under the CLOCs at April 30, 2011 or 2010.

On January 11, 2008, we issued $600.0 million of 7.875% Senior Notes under our shelf registration. The Senior Notes are due January 15, 2013 and are not redeemable by the bondholders prior to maturity. The net proceeds of this transaction were used to repay a $500.0 million facility, with the remaining proceeds used for working capital and general corporate purposes.

On October 26, 2004, we issued $400.0 million of 5.125% Senior Notes under our shelf registration. The Senior Notes are due October 30, 2014 and are not redeemable by the bondholders prior to maturity. The net proceeds of this transaction were used to repay $250.0 million in 6 3/4% Senior Notes that were due in November 2004. The remaining proceeds were used for working capital, capital expenditures, repayment of other debt and other general corporate purposes.

We have obligations related to various acquisitions of $43.3 million and $28.7 million at April 30, 2011 and 2010, respectively, which are due from May 2011 to December 2022.

We have a capitalized lease obligation of $11.0 million at April 30, 2011, that is collateralized by land and buildings. The obligation is due in 12 years.

The aggregate payments required to retire long-term debt are $3.4 million, $631.0 million, $1.6 million, $400.9 million, $2.7 million and $13.5 million in fiscal years 2012, 2013, 2014, 2015, 2016 and beyond, respectively.

HRB Bank is a member of the FHLB of Des Moines, which extends credit to member banks based on eligible collateral. At April 30, 2011, HRB Bank had FHLB advance capacity of $276.1 million. At April 30, 2011, we had $25.0 million outstanding on this facility, leaving remaining availability of $251.1 million. Mortgage loans held for investment of $381.5 million serve as eligible collateral and are used to determine total capacity. Our current outstanding borrowings of $25.0 million are due in April 2012 and bear interest at a rate of 2.36%.

## NOTE 12: OTHER NONCURRENT ASSETS AND LIABILITIES

We have various compensation plans where we make contributions to eligible participant accounts, which may also include deferred compensation of the participant, with the participants then accruing income on these amounts. Included in other noncurrent liabilities is $152.7 million and $135.5 million at April 30, 2011 and 2010, respectively, reflecting our obligation under these plans. We may purchase whole-life insurance contracts on certain employee participants to recover distributions made or to be made under the plans. The cash surrender value of the policies and other assets held by the trusts are recorded in other noncurrent assets and totaled $115.0 million and $112.4 million at April 30, 2011 and 2010, respectively. These assets are restricted, as they are only available to fund the related liabilities.

## NOTE 13: STOCKHOLDERS' EQUITY

During fiscal year 2011, we purchased and immediately retired 19.0 million shares of our common stock at a cost of $279.9 million. During fiscal year 2010, we purchased and immediately retired 12.8 million shares of our common stock at a cost of $250.0 million. We may continue to repurchase and retire common stock or retire shares held in treasury in the future.

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 $141.4 million, after deducting placement agent fees and other offering expenses. Proceeds were used for general corporate purposes.

We are authorized to issue 6.0 million shares of Preferred Stock without par value. At April 30, 2011, we had 5.6 million shares of authorized but unissued Preferred Stock. Of the unissued shares, 0.6 million shares have been designated as Participating Preferred Stock.

We are authorized to issue 0.5 million shares of non-voting Preferred Stock designated as Convertible Preferred Stock without par value. At April 30, 2011, we had 0.5 million shares of authorized but unissued Convertible Preferred Stock. The holders of the Convertible Preferred Stock are not entitled to receive dividends paid in cash, property or securities and, in the event of any dissolution, liquidation or wind-up of the Company, will share ratably with the holders of Common Stock then outstanding in the assets of the Company after any distribution or payments are made to the holders of Participating Preferred stock or the holders of any other class or series of stock of the Company with preference over the Common Stock.

## NOTE 14: STOCK-BASED COMPENSATION

We utilize the fair value method to account for stock-based awards. Stock-based compensation expense of $14.5 million, $29.4 million and $32.6 million was recorded in fiscal years 2011, 2010 and 2009, respectively, net of related tax benefits of $5.4 million, $10.5 million and $12.2 million, respectively. Stock-based compensation

expense of our continuing operations totaled $14.5 million, $29.3 million and $26.6 million in fiscal years 2011, 2010 and 2009, respectively.

Accounting standards require excess tax benefits from stock-based compensation to be included as a financing activity in the statements of cash flows. As a result, we classified $0.5 million, $1.6 million and $8.6 million as cash inflows from financing activities for fiscal years 2011, 2010 and 2009, respectively. We realized tax benefits of $4.4 million, $6.6 million and $20.2 million in fiscal years 2011, 2010 and 2009, respectively.

We have four stock-based compensation plans which have been approved by our shareholders. As of April 30, 2011, we had 11.5 million shares reserved for future awards under stock-based compensation plans. We issue shares from our treasury stock to satisfy the exercise or release of stock-based awards. We believe we have adequate treasury stock to issue for the exercise or release of stock-based awards.

Our 2003 Long-Term Executive Compensation Plan provides for awards of options (both incentive and nonqualified), nonvested shares, performance nonvested share units and other stock-based awards to employees. These awards entitle the holder to shares or the right to purchase shares of common stock as the award vests, typically over a three-year or four-year period with a portion vesting each year. Historically, nonvested shares have received dividends during the vesting period, however awards granted after October 1, 2010 will no longer receive dividends during the vesting period. Performance nonvested share units receive cumulative dividends at the end of the vesting period. We measure the fair value of options on the grant date or modification date using the Black-Scholes option valuation model. We measure the fair value of nonvested shares and performance nonvested share units based on the closing price of our common stock on the grant date. Generally, we expense the grant-date fair value, net of estimated forfeitures, over the vesting period on a straight-line basis. Awards granted to employees who are of retirement age or early retirement age (age 65 or age 55 and ten years of service) or reach either retirement age prior to the end of the service period of the awards, are expensed over the shorter of the two periods. Options are generally granted at a price equal to the fair market value of our common stock on the grant date and have a contractual term of ten years.

Our 1999 Stock Option Plan for Seasonal Employees, which provided for awards of nonqualified options to certain employees, was terminated effective December 31, 2009, except for outstanding awards thereunder. These awards were granted to seasonal employees in our Tax Services segment and entitled the holder to the right to purchase shares of common stock as the award vests, typically over a two-year period. We measured the fair value of options on the grant date using the Black-Scholes option valuation model. We expensed the grant-date fair value, net of estimated forfeitures, over the seasonal service period. Options were granted at a price equal to the fair market value of our common stock on the grant date, are exercisable during September through November in each of the two years following the calendar year of the grant, and have a contractual term of 29 months.

Our 1989 Stock Option Plan for Outside Directors, which provided for awards of nonqualified options to outside directors, was terminated effective June 11, 2008, except for outstanding awards thereunder. The plan was replaced by the 2008 Deferred Stock Unit Plan for Outside Directors. The number of deferred stock units credited to an outside director’s account pursuant to an award is determined by dividing the dollar amount of the award by the average current market value per share of common stock for the ten consecutive trading dates ending on the date the deferred stock units are granted to the outside directors. Each deferred stock unit granted is vested upon award and the settlement of shares occurs six months after separation of service from the Board of Directors. The vested shares receive dividends prior to settlement, which are reinvested and settled in shares at the time of settlement.

Our 2000 Employee Stock Purchase Plan (ESPP) provides employees the option to purchase shares of our common stock through payroll deductions. The purchase price of the stock is 90% of the lower of either the fair market value of our common stock on the first trading day within the Option Period or on the last trading day of the Option Period. The Option Periods are six-month periods beginning on January 1 and July 1 each year. We measure the fair value of options on the grant date utilizing the Black-Scholes option valuation model. The fair value of the option includes the value of the 10% discount and the look-back feature. We expense the grant-date fair value over the six-month vesting period.

A summary of options for the year ended April 30, 2011, is as follows:

(in 000s, except per share amounts)

| | Shares | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Term | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Outstanding, beginning of the year | 15,082 | $ 20.58 | | |
| Granted | 2,080 | 13.29 | | |
| Exercised | (338) | 10.64 | | |
| Forfeited or expired | (6,034) | 22.17 | | |
| Outstanding, end of the year | 10,790 | $ 18.64 | 4 years | $ 9,224 |
| Exercisable, end of the year | 8,122 | $ 19.95 | 2 years | $ 1,318 |
| Exercisable and expected to vest | 10,650 | 18.71 | 4 years | 8,666 |

The total intrinsic value of options exercised during fiscal years 2011, 2010 and 2009 was $1.8 million, $5.4 million and $33.0 million, respectively. As of April 30, 2011, we had $3.2 million of total unrecognized compensation cost related to these options. The cost is expected to be recognized over a weighted-average period of two years.

We utilize the Black-Scholes option valuation model to value our options on the grant date. We typically estimate the expected volatility using our historical stock price data, unless historical volatility is not representative of expected volatility. We also use historical exercise and forfeiture behaviors to estimate the options expected term and our forfeiture rate. The dividend yield is calculated based on the current dividend and the market price of our common stock on the grant date. The risk-free interest rate is based on the U.S. Treasury zero-coupon yield curve in effect on the grant date. Both expected volatility and the risk-free interest rate are based on a period that approximates the expected term.

The following assumptions were used to value options during the periods:

| Year Ended April 30, | 2011 | 2010 | 2009 |
|---|---|---|---|
| Options – management and director: | | | |
| Expected volatility | 28.98% - 30.20% | 27.11% - 27.27% | 23.41% - 25.20% |
| Expected term | 5 years | 5 years | 4 years |
| Dividend yield | 4.18% - 5.17% | 3.24% - 3.55% | 2.35% - 3.04% |
| Risk-free interest rate | 1.26% - 1.92% | 2.38% - 2.75% | 2.54% - 3.26% |
| Weighted-average fair value | $ 2.25 | $ 3.27 | $ 3.80 |
| Options – seasonal:[1] | | | |
| Expected volatility | | 33.81% | 25.35% |
| Expected term | | 2 years | 2 years |
| Dividend yield | | 3.48% | 2.80% |
| Risk-free interest rate | | 0.85% | 2.54% |
| Weighted-average fair value | | $ 2.70 | $ 2.83 |
| ESPP options: | | | |
| Expected volatility | 22.75% - 23.31% | 23.68% - 43.20% | 29.13% - 43.82% |
| Expected term | 0.5 years | 0.5 years | 0.5 years |
| Dividend yield | 3.86% - 4.80% | 2.65% - 3.46% | 2.67% - 2.78% |
| Risk-free interest rate | 0.19% - 0.23% | 0.20% - 0.33% | 0.27% - 2.13% |
| Weighted-average fair value | $ 2.16 | $ 3.66 | $ 4.38 |

(1) This plan was terminated in fiscal year 2010, except for outstanding awards thereunder.

A summary of nonvested shares and performance nonvested share units for the year ended April 30, 2011, is as follows:

(shares in 000s)

| | Shares | Weighted-Average Grant Date Fair Value |
|---|---|---|
| Outstanding, beginning of the year | 1,619 | $ 19.55 |
| Granted | 745 | 12.56 |
| Released | (632) | 20.20 |
| Forfeited | (232) | 17.61 |
| Outstanding, end of the year | 1,500 | $ 15.92 |

The total fair value of shares vesting during fiscal years 2011, 2010 and 2009 was $13.0 million, $15.5 million and $21.1 million, respectively. Upon the grant of nonvested shares and performance nonvested share units, unearned

compensation cost is recorded as an offset to additional paid-in capital and is amortized as compensation expense over the vesting period. As of April 30, 2011, we had $11.5 million of total unrecognized compensation cost related to these shares. This cost is expected to be recognized over a weighted-average period of 2 years.

## NOTE 15: INCOME TAXES

The components of income from continuing operations upon which domestic and foreign income taxes have been provided are as follows:

(in 000s)

| Year Ended April 30, | **2011** | 2010 | 2009 |
|---|---|---|---|
| Domestic | **$ 639,914** | $ 745,912 | $ 815,614 |
| Foreign | **37,111** | 38,223 | 23,756 |
| | **$ 677,025** | $ 784,135 | $ 839,370 |

The components of income tax expense (benefit) for continuing operations are as follows:

(in 000s)

| Year Ended April 30, | **2011** | 2010 | 2009 |
|---|---|---|---|
| Current: | | | |
| Federal | **$ 188,086** | $ 92,992 | $ 243,085 |
| State | **45,068** | 23,625 | 38,418 |
| Foreign | **21,456** | 16,052 | 1,393 |
| | **254,610** | 132,669 | 282,896 |
| Deferred: | | | |
| Federal | **(799)** | 128,900 | 36,739 |
| State | **3,521** | 33,448 | 6,582 |
| Foreign | **288** | 172 | 98 |
| | **3,010** | 162,520 | 43,419 |
| Total income taxes for continuing operations | **$ 257,620** | $ 295,189 | $ 326,315 |

The reconciliation between the income tax provision and the amount computed by applying the statutory federal tax rate of 35% to income taxes of continuing operations is as follows:

| Year Ended April 30, | **2011** | 2010 | 2009 |
|---|---|---|---|
| U.S. statutory tax rate | **35.0%** | 35.0% | 35.0% |
| Change in tax rate resulting from: | | | |
| State income taxes, net of federal income tax benefit | **4.5%** | 3.8% | 4.2% |
| Permanent differences | **(0.3)%** | (0.5)% | 1.6% |
| Uncertain tax positions | **1.1%** | 0.9% | 0.5% |
| Net decrease in valuation allowance | **(1.3)%** | (1.0)% | (1.2)% |
| Other | **(0.9)%** | (0.6)% | (1.2)% |
| Effective tax rate | **38.1%** | 37.6% | 38.9% |

The significant components of deferred tax assets and liabilities of continuing operations are reflected in the following table:

| | | (in 000s) |
|---|---|---|
| As of April 30, | **2011** | 2010 |
| Gross deferred tax assets: | | |
| Accrued expenses | **$ 61,891** | $ 17,554 |
| Allowance for credit losses and related reserves | **102,587** | 164,783 |
| Net operating loss carryovers | **–** | 200 |
| Other | **–** | 237 |
| Valuation allowance | **(47,300)** | (1,745) |
| Current | **117,178** | 181,029 |
| Deferred and stock-based compensation | **73,398** | 71,970 |
| Property and equipment | **–** | 9,071 |
| Deferred revenue | **23,166** | 25,595 |
| Net operating loss carryovers | **21,057** | 26,292 |
| Accrued expenses | **32,481** | 31,892 |
| Capital loss carryover | **150,876** | 144,507 |
| Other | **15,953** | 15,991 |
| Valuation allowance | **(94,261)** | (151,838) |
| Noncurrent | **222,670** | 173,480 |
| | **339,848** | 354,509 |
| Gross deferred tax liabilities: | | |
| Prepaid expenses | **(4,734)** | (6,337) |
| Current | **(4,734)** | (6,337) |
| Property and equipment | **(10,731)** | – |
| Basis difference in mortgage-related investment | **(49,751)** | (81,118) |
| Intangibles | **(139,963)** | (124,918) |
| Noncurrent | **(200,445)** | (206,036) |
| Net deferred tax assets | **$ 134,669** | $ 142,136 |

The loss from discontinued operations for fiscal years 2011, 2010 and 2009 of $13.3 million, $9.7 million and $27.4 million, respectively are net of tax benefits of $8.7 million, $8.0 million and $20.3 million, respectively. Our effective tax rate for discontinued operations was 39.4%, 45.1% and 42.5% for fiscal years 2011, 2010 and 2009, respectively.

As of April 30, 2011, we have a capital loss deferred tax asset (DTA) of $147 million. The majority of this capital loss DTA resulted from the sale of our brokerage business in November 2008. Generally, for tax purposes, a capital loss can only be utilized to the extent we realize capital gains within five years of the end of the taxable year the capital loss was incurred. We do not currently expect to be able to realize a tax benefit for substantially all of this loss and, therefore, recorded a valuation allowance of $126.3 million. We have capital loss carryover of approximately $375 million which will expire if not used to offset future capital gains before December 31, 2013.

During fiscal year 2010, our current tax expense was reduced and our deferred tax expense increased by offsetting amounts due to the tax effects of a tax accounting change impacting the timing of taxable income from certain mortgage related assets. Because of this treatment we recorded a noncurrent deferred tax liability of $81.1 million and a long-term receivable of the same amount as a result of this change. During fiscal year 2011, we changed our measurement of the more-likely-than-not tax basis of certain assets of a subsidiary as a result of new information obtained from ongoing interactions with the IRS. The result of this new information was to increase our noncurrent deferred tax liability in the amount of $66.3 million and to establish a long-term receivable for the same amount as it is not expected that these matters will be settled within twelve months.

Certain of our subsidiaries file stand-alone returns in various states and foreign jurisdictions, and others join in filing consolidated or combined returns in such jurisdictions. At April 30, 2011, we had net operating losses (NOLs) in various states and foreign jurisdictions. The amount of state NOLs vary by taxing jurisdiction. We recorded deferred tax assets of $21.1 million for the tax effects of such losses and a valuation allowance of $10.3 million for the portion of such losses that, more likely than not, will not be realized. If not used, the NOLs will expire in varying amounts during fiscal years 2012 through 2031.

We intend to indefinitely reinvest foreign earnings, therefore, a provision has not been made for income taxes that might be payable upon remittance of such earnings. Determination of the amount of unrecognized deferred tax liability on unremitted foreign earnings is not practicable.

A reconciliation of the beginning and ending amount of unrecognized tax benefits for fiscal years 2011, 2010 and 2009 is as follows:

| (in 000s) | | | |
|---|---|---|---|
| Year Ended April 30, | 2011 | 2010 | 2009 |
| Balance, beginning of the year | $ 129,767 | $ 124,605 | $ 137,608 |
| Additions based on tax positions related to prior years | 28,262 | 12,957 | 14,541 |
| Reductions based on tax positions related to prior years | (1,473) | (2,427) | (6,096) |
| Additions based on tax positions related to the current year | 3,417 | 3,314 | 4,110 |
| Reductions related to settlements with tax authorities | (7,639) | (8,545) | (18,189) |
| Expiration of statute of limitations | (315) | (1,061) | (5,007) |
| Foreign currency translation | 1,057 | 924 | (2,362) |
| Other | 1,772 | – | – |
| Balance, end of the year | $ 154,848 | $ 129,767 | $ 124,605 |

Of the $154.8 million, $129.8 million and $124.6 million ending gross unrecognized tax benefit balance as of April 30, 2011, 2010 and 2009, respectively, $117.6 million, $106.8 million and $107.0 million, respectively, if recognized, would impact the effective rate. This difference results from adjusting the gross balances for such items as federal, state and foreign deferred items, interest and deductible taxes. We believe it is reasonably possible that the balance of unrecognized tax benefits could decrease by approximately $17 million within the next twelve months due to anticipated settlements of audit issues and expiring statutes of limitations. This amount is included in accrued income taxes in our consolidated balance sheet. The remaining amount is classified as long-term and is included in other noncurrent liabilities in the consolidated balance sheet.

Interest and penalties, if any, accrued on the unrecognized tax benefits are reflected in income tax expense. The amount of gross interest and penalties accrued on uncertain tax positions during fiscal years 2011, 2010 and 2009 totaled $4.4 million, $4.1 million and $15.4 million, respectively. The total gross interest and penalties accrued as of April 30, 2011, 2010 and 2009 totaled $44.1 million, $39.7 million and $42.4 million, respectively.

We file a consolidated federal income tax return in the U.S. and file tax returns in various state and foreign jurisdictions. The consolidated tax returns for the years 2006 and 2007 are currently under examination by the IRS. The consolidated tax returns for the years 1999 – 2005 are at the IRS appellate level. 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 examination.

## NOTE 16:INTEREST INCOME AND INTEREST EXPENSE

The following table shows the components of interest income and expense of our continuing operations. Interest expense is included in cost of revenues on our consolidated statements of income.

| | | | (in 000s) |
|---|---|---|---|
| Year Ended April 30, | 2011 | 2010 | 2009 |
| Interest income: | | | |
| Mortgage loans, net | $ 24,693 | $ 31,877 | $ 46,396 |
| Emerald Advance lines of credit | 94,300 | 77,891 | 91,019 |
| Investment securities | 1,609 | 2,318 | 4,896 |
| Other | 13,551 | 10,319 | 12,205 |
| | $ 134,153 | $ 122,405 | $ 154,516 |
| Interest expense: | | | |
| Borrowings | $ 85,421 | $ 78,398 | $ 83,193 |
| Deposits | 8,488 | 10,174 | 14,069 |
| FHLB advances | 1,526 | 1,997 | 5,113 |
| | $ 95,435 | $ 90,569 | $ 102,375 |

## NOTE 17:VARIABLE INTERESTS

The following is a description of our financial interests in VIEs which we consider significant or where we are the sponsor. For these VIEs we have determined that we are not the primary beneficiary and, therefore have not consolidated the VIEs. Prior to implementation of this new guidance we did not consolidate these entities.

**McGladrey & Pullen LLP** – McGladrey & Pullen LLP (M&P) is a limited liability partnership, owned 100% by certified public accountants (CPAs), which provides attest services to middle market clients.

Under state accountancy regulations, a firm cannot provide attest services unless it is properly licensed which requires that the firm be majority-owned and controlled by licensed CPAs. As such, RSM McGladrey, Inc. (RSM) cannot be a licensed CPA firm and cannot provide attest services. Since 1999, RSM and M&P have operated in what

is known as an “alternative practice structure” (APS). Through the APS, RSM and M&P offer clients a full range of attest and non-attest services in compliance with applicable accountancy regulations.

An administrative services agreement between RSM and M&P obligates RSM to provide M&P with administrative services, information technology, office space, non-professional staff, and other infrastructure in exchange for market rate fees from M&P. In addition, the agreement allows for professional staff to be sub-contracted between RSM and M&P at market rates. During fiscal years 2011 and 2010, we received $4.1 million and $22.6 million, respectively, in management fee revenues from M&P.

All partners of M&P, with the exception of M&P’s Managing Partner, are also managing directors employed by RSM. Approximately 84% of RSM’s managing directors are also partners in M&P. Certain other personnel are also employed by both M&P and RSM. M&P partners receive distributions of M&P’s earnings in their capacity as partners, as well as compensation from RSM in their capacity as managing directors. Distributions to M&P partners are based on the profitability of M&P and are not capped by the APS. The aggregate compensation payable to RSM managing directors by RSM in any given year generally equals 67 percent of the combined profits of M&P and RSM less any amounts paid in their capacity as M&P partners. In practice, this means that variability in the amounts paid to RSM managing directors under these contracts can cause variability in RSM’s operating results. RSM is not entitled to any profits or residual interests of M&P, nor is it obligated to fund losses or capital deficiencies of M&P. Managing directors of RSM have historically participated in stock-based compensation plans of H&R Block. Beginning in fiscal 2011, participation in those plans ceased and were replaced by a non-contributory, non-qualified defined contribution plan. RSM is required to pay $60.0 million over five years to fund contributions to the retirement plan. The administrative services agreement with M&P and compensation arrangements between RSM and their managing directors represent a variable interest in M&P.

We have concluded that RSM is not the primary beneficiary of M&P and, therefore, we have not consolidated M&P. RSM does not have an equity interest in M&P, nor does it have the power to direct any activities of M&P and does not receive any of its income. We have no assets or liabilities included in our consolidated balance sheets related to our variable interests. We believe RSM’s maximum exposure to economic loss, resulting from various agreements with M&P, relates primarily to shared office space from operating leases under the administrative services agreement equal to $94.8 million at April 30, 2011, and variability in our operating results due to the compensation agreements with RSM managing directors. We do not provide any support that is not contractually required.

**Securitization Trusts** – SCC holds an interest in and is the sponsor (issuer) of 56 REMIC Trusts and 14 NIM Trusts (collectively, “Trusts”) related to previously originated mortgage loans that were securitized. These Trusts are variable interest entities. The REMIC Trusts hold static pools of sub-prime residential mortgage loans. The NIM Trusts hold beneficial interests in certain REMIC Trusts. The Trusts were designed to collect and pass through to the beneficial interest holders the cash flows of the underlying mortgage loans. The REMIC Trusts were financed with bonds and equity. The NIM Trusts were financed with notes and equity. All bonds and notes are held by third-party investors.

Our identification of the primary beneficiary of the Trusts was based on a determination that the servicer of the underlying mortgage loans has the power to direct the most significant activities of the Trusts because the servicer handles all of the loss mitigation activities for the mortgage loans.

SCC is not the servicer of the mortgage loans underlying the REMIC Trusts. Therefore, SCC is not the primary beneficiary of the REMIC Trusts because it does not have the power to direct the most significant activities of the REMIC Trusts, which is the servicing of the underlying mortgage loans.

SCC does have the exclusive right to appoint a servicer when certain conditions have been met for specific loans related to two of the NIM Trusts. As of April 30, 2011, those conditions have been met for a minority portion of the loans underlying those Trusts. As this right pertains only to a minority of the loans, we have concluded that SCC does not have the power to direct the most significant activities of these two NIM Trusts, as the servicer has the power to direct significant activities over the majority of the mortgage loans. In the remaining NIM Trusts, SCC has a shared right to appoint a servicer under certain conditions. For these NIM Trusts, we have concluded that SCC is not the primary beneficiary because the power to direct the most significant activities, which is the servicing of the underlying mortgage loans, is shared with other unrelated parties.

At April 30, 2011, we had no significant assets or liabilities included in our consolidated balance sheets related to SCC’s variable interests in the Trusts. We have a liability, as discussed in note 18, and a deferred tax asset recorded in our consolidated balance sheets related to obligations for representations and warranties SCC made in connection with the transfer of mortgage loans, including mortgage loans held by the securitization trusts. We have no remaining exposure to economic loss arising from impairment of SCC’s beneficial interest in the Trusts. If SCC receives cash flows in the future as a holder of beneficial interests we would record gains as other income in

our income statement. Neither we nor SCC has liquidity arrangements, guarantees or other commitments for the Trusts, nor has any support been provided that was not contractually required.

## NOTE 18:COMMITMENTS AND CONTINGENCIES

We offer guarantees under our POM program to tax clients whereby we will assume the cost of additional tax assessments, up to a cumulative per client limit of $5,500, attributable to tax return preparation error for which we are responsible. We defer all revenues and direct costs associated with these guarantees, recognizing these amounts over the term of the guarantee based on historical and actual payment of claims. The related current asset is included in prepaid expenses and other current assets. The related liability is included in accounts payable, accrued expenses and other current liabilities in the consolidated balance sheets. The related noncurrent asset and liability are included in other assets and other noncurrent liabilities, respectively, in the consolidated balance sheets. A loss on these POM guarantees would be recognized if the sum of expected costs for services exceeded unearned revenue. The changes in the deferred revenue liability for fiscal years 2011 and 2010 are as follows:

(in 000s)

| Year Ended April 30, | 2011 | 2010 |
|---|---|---|
| Balance, beginning of the year | **$ 141,542** | $ 146,807 |
| Amounts deferred for new guarantees issued | **77,474** | 74,889 |
| Revenue recognized on previous deferrals | **(78,413)** | (80,154) |
| Balance, end of the year | **$ 140,603** | $ 141,542 |

In addition to amounts accrued for our POM guarantee, we had accrued $14.7 million and $14.5 million at April 30, 2011 and 2010, respectively, related to our standard guarantee which is included with our standard tax preparation services.

During fiscal year 2009, we entered into an agreement to purchase $45.8 million in media advertising between July 1, 2009 and June 30, 2013. At April 30, 2011, our remaining obligation totaled $9.5 million. We expect to make payments totaling $6.7 million during fiscal year 2012.

We have various contingent purchase price obligations for acquisitions prior to May 2009. In many cases, contingent payments to be made in connection with these acquisitions are not subject to a stated limit. We estimate the potential payments (undiscounted) for which we have not recorded a liability total $3.8 million as of April 30, 2011. We have recorded liabilities totaling $11.0 million in conjunction with contingent payments related to more recent acquisitions, with the short-term amount recorded in accounts payable, accrued expenses and deposits and the long-term portion included in other noncurrent liabilities. Our estimate is based on current financial conditions. Should actual results differ materially from our assumptions, the potential payments will differ from the above estimate.

We have contractual commitments to fund certain franchises requesting Franchise Equity Lines of Credit (FELCs). Our total obligation under these lines of credit was $85.2 million at April 30, 2011, and net of amounts drawn and outstanding, our remaining commitment to fund totaled $37.7 million.

We are self-insured for certain risks, including, workers' compensation, property and casualty, professional liability and claims related to our POM program. These programs maintain various self-insured retentions. In all but POM, commercial insurance is purchased in excess of the self-insured retentions. We accrue estimated losses for self-insured retentions using actuarial models and assumptions based on historical loss experience. The nature of our business may subject us to error and omissions, casualty and professional liability lawsuits. To the extent that we are subject to claims exceeding our insurance coverage, such suits could have a material effect on our financial position, results of operations or liquidity.

We issued three standby letters of credit to servicers paying claims related to our POM, errors and omissions, and property and casualty insurance policies. These letters of credit are for amounts not to exceed $5.3 million in the aggregate. At April 30, 2011, there were no balances outstanding on these letters of credit.

Our self-insured health benefits plan provides medical benefits to employees electing coverage under the plan. We maintain a reserve for incurred but not reported medical claims and claim development. The reserve is an estimate based on historical experience and other assumptions, some of which are subjective. We adjust our self-insured medical benefits reserve as our loss experience changes due to medical inflation, changes in the number of plan participants and an aging employee base.

During fiscal year 2006, we entered into a transaction with the City of Kansas City, Missouri, to provide us with sales and property tax savings on the furniture, fixtures and equipment for our corporate headquarters facility. Under the transaction, the City purchased equipment by issuing $31.0 million in Industrial Revenue Bonds due in December 2015, and leased the furniture, fixtures and equipment to us for an identical term under a capital lease. The City's bonds were purchased by us. Because the City has assigned the lease to the bond trustee for our benefit

as the sole bondholder, we, in effect, control enforcement of the lease against ourselves. As a result of the capital lease treatment, the furniture, fixtures and equipment will remain a component of property, plant and equipment in our consolidated balance sheets. As a result of the legal right of offset, the capital lease obligation and the corresponding bond investments have been eliminated in consolidation. The transaction provides us with property tax exemptions for the leased furniture, fixtures and equipment. As of April 30, 2011, we have purchased $31.0 million in bonds in connection with this arrangement.

Substantially all of the operations of our subsidiaries are conducted in leased premises. Most of the operating leases are for periods ranging from three years to five years, with renewal options and provide for fixed monthly rentals. Future minimum operating lease commitments of our continuing operations at April 30, 2011, are as follows:

| | (in 000s) |
|---|---|
| 2012 | $ 238,167 |
| 2013 | 181,044 |
| 2014 | 128,063 |
| 2015 | 84,138 |
| 2016 | 35,942 |
| 2017 and beyond | 67,694 |
| | $ 735,048 |

Rent expense of our continuing operations for fiscal years 2011, 2010 and 2009 totaled $272.1 million, $289.6 million and $308.1 million, respectively.

In the regular course of business, we are subject to routine examinations by federal, state and local taxing authorities. In management's opinion, the disposition of matters raised by such taxing authorities, if any, would not have a material impact on our consolidated financial statements.

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 is 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 April 30, 2011.

**DISCONTINUED OPERATIONS** – SCC, previously known as Option One Mortgage Corporation, ceased originating mortgage loans in December 2007 and, in April 2008, sold its servicing assets and discontinued its remaining operations. The sale of servicing assets did not include the sale of any mortgage loans.

In connection with the securitization and sale of loans, SCC made certain representations and warranties, including, but not limited to, representations relating to matters such as ownership of the loan, validity of lien securing the loan, and the loan's compliance with SCC's underwriting criteria. Representations and warranties in whole loan sale transactions to institutional investors included a "knowledge qualifier" which limits SCC liability for borrower fraud to those instances where SCC had knowledge of the fraud at the time the loans were sold. In the event that there is a breach of a representation and warranty and such breach materially and adversely affects the value of a mortgage loan, SCC may be obligated to repurchase a loan or otherwise indemnify certain parties for losses incurred as a result of loan liquidation. Generally, these representations and warranties are not subject to a stated term, but would be subject to statutes of limitation applicable to the contractual provisions.

Claims received by SCC have primarily related to alleged breaches of representations and warranties related to a loan's compliance with the underwriting standards established by SCC at origination, borrower fraud and credit exceptions without sufficient compensating factors. Claims received since May 1, 2008 follows:

(in millions)

| | Fiscal Year 2009 | | | | Fiscal Year 2010 | | | | Fiscal Year 2011 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Total |
| Loan Origination Year: | | | | | | | | | | | | | |
| 2005 | $ 40 | $ 21 | $ 1 | $ – | $ – | $ 15 | $ – | $ – | $ 6 | $ 1 | $ – | $ 1 | $ 85 |
| 2006 | 89 | 10 | 111 | 7 | 2 | 57 | 4 | 45 | 100 | 15 | 29 | 50 | 519 |
| 2007 | 43 | 10 | 85 | 15 | 4 | 11 | 7 | – | 3 | 5 | 4 | 4 | 191 |
| Total | $ 172 | $ 41 | $ 197 | $ 22 | $ 6 | $ 83 | $ 11 | $ 45 | $ 109 | $ 21 | $ 33 | $ 55 | $ 795 |

Note: The table above excludes amounts related to an indemnity agreement dated April 2008, which is discussed below.

For claims received, reviewed and determined to be valid, SCC has complied with its obligations by either repurchasing the mortgage loans or REO properties, providing for the reimbursement of losses in connection with liquidated REO properties, or reaching other settlements. SCC has denied approximately 84% of all claims received, excluding resolution reached under other settlements. Counterparties could reassert claims that SCC has denied. Of claims determined to be valid, approximately 22% resulted in loan repurchases, and 78% resulted in indemnification or settlement payments. Losses on loan repurchase, indemnification and settlement payments totaled approximately $117 million for the period May 1, 2008 through April 30, 2011. Loss severity rates on repurchases and indemnification have approximated 57% and SCC has not observed any material trends related to average losses. Repurchased loans are considered held for sale and are included in prepaid expenses and other current assets on the consolidated balance sheets. The net balance of all mortgage loans held for sale by SCC was $12.3 million at April 30, 2011.

SCC generally has 60 to 120 days to respond to representation and warranty claims and performs a loan-by-loan review of all repurchase claims during this time. SCC has completed its review of all claims, with the exception of claims totaling approximately $79 million, which remained subject to review as of April 30, 2011. Of the claims still subject to review, approximately $25 million are from private-label securitizations, and $53 million are from monoline insurers, with the remainder from government sponsored entities. Approximately $30 million of claims under review represent requests by the counterparty for additional information related to denied claims, or are a reassertion of previously denied claims.

All claims asserted against SCC since May 1, 2008 relate to loans originated during calendar years 2005 through 2007, of which, approximately 89% relate to loans originated in calendar years 2006 and 2007. During calendar year 2005 through 2007, SCC originated approximately $84 billion in loans, of which less than 1% were sold to government sponsored entities. SCC is not subject to loss on loans that have been paid in full, repurchased, or were sold without recourse.

The majority of claims asserted since May 1, 2008, which have been determined by SCC to represent a valid breach of its representations and warranties, relate to loans that became delinquent within the first two years following the origination of the mortgage loan. SCC believes the longer a loan performs prior to an event of default, the less likely the default will be related to a breach of a representation and warranty. The balance of loans originated in 2005, 2006 and 2007 which defaulted in the first two years is $4.0 billion, $6.3 billion and $2.9 billion, respectively, at April 30, 2011.

SCC has recorded a liability for estimated contingent losses related to representation and warranty claims as of April 30, 2011, of $126.3 million, which represents SCC's best estimate of the probable loss that may occur. During the current year, payments totaling $49.8 million were made under an indemnity agreement dated April 2008 with a specific counterparty in exchange for a full and complete release of such party's ability to assert representation and warranty claims. The indemnity agreement was given as part of obtaining the counterparty's consent to SCC's sale of its mortgage servicing business in 2008. We have no remaining payment obligations under this indemnity agreement.

The recorded liability represents SCC's estimate of losses from future claims where assertion of a claim and a related contingent loss are both deemed probable. Because the rate at which future claims may be deemed valid and actual loss severity rates may differ significantly from historical experience, SCC is not able to estimate reasonably possible loss outcomes in excess of its current accrual. A 1% increase in both assumed validity rates and loss severities would result in losses beyond SCC's accrual of approximately $16 million. This sensitivity is hypothetical and is intended to provide an indication of the impact of a change in key assumptions on the representations and warranties liability. In reality, changes in one assumption may result in changes in other assumptions, which may or may not counteract the sensitivity.

While SCC uses the best information available to it in estimating its liability, assessing the likelihood that claims will be asserted in the future and estimating probable losses are inherently difficult to estimate and require considerable management judgment. Although net losses on settled claims since May 1, 2008 have been within initial loss estimates, to the extent that the volume of asserted claims, the level of valid claims, the counterparties asserting claims, the nature of claims, or the value of residential home prices differ in the future from current estimates, future losses may be greater than the current estimates and those differences may be significant.

A rollforward of our liability for losses on repurchases for fiscal years 2011, 2010 and 2009 is as follows:

(in 000s)

| Year Ended April 30, | **2011** | 2010 | 2009 |
|---|---|---|---|
| Balance as of May 1: | | | |
| Amount related to repurchase and indemnifications | **$ 138,415** | $ 156,659 | $ 193,066 |
| Amount related to indemnity agreement dated April 2008 | **49,785** | 49,936 | 50,000 |
| | **188,200** | 206,595 | 243,066 |
| Changes: | | | |
| Provisions | **–** | – | – |
| Losses on repurchase and indemnifications | **(12,155)** | (18,244) | (36,407) |
| Payments under indemnity agreement dated April 2008 | **(49,785)** | (151) | (64) |
| Balance as of April 30: | | | |
| Amount related to repurchase and indemnifications | **126,260** | 138,415 | 156,659 |
| Amount related to indemnity agreement dated April 2008 | **–** | 49,785 | 49,936 |
| | **$ 126,260** | $ 188,200 | $ 206,595 |

There have been no provisions for additional losses included in the income statement since April 30, 2008.

## NOTE 19:LITIGATION AND RELATED CONTINGENCIES

We are party to investigations, legal claims and lawsuits arising out of our business operations. As required, we accrue our best estimate of loss contingencies when we believe a loss is probable and we can reasonably estimate the amount of any such loss. Amounts accrued, including obligations under indemnifications, totaled $70.6 million and $35.5 million at April 30, 2011 and 2010, respectively. Litigation is inherently unpredictable and it is difficult to project the outcome of particular matters with reasonable certainty and, therefore, the actual amount of any loss may prove to be larger or smaller than the amounts reflected in our consolidated financial statements.

**RAL LITIGATION** – We have been named in multiple lawsuits as defendants in litigation regarding our refund anticipation loan program in past years. All of those lawsuits have been settled or otherwise resolved, except for one.

The sole remaining case is a putative class action styled *Sandra J. Basile, et al. v. H&R Block, Inc., et al.*, April Term 1992 Civil Action No. 3246 in the Court of Common Pleas, First Judicial District Court of Pennsylvania, Philadelphia County, instituted on April 23, 1993. The plaintiffs allege inadequate disclosures with respect to the RAL product and assert claims for violation of consumer protection statutes, negligent misrepresentation, breach of fiduciary duty, common law fraud, usury, and violation of the Truth In Lending Act. Plaintiffs seek unspecified actual and punitive damages, injunctive relief, attorneys' fees and costs. A Pennsylvania class was certified, but later decertified by the trial court in December 2003. An appellate court subsequently reversed the decertification decision. We are appealing the reversal. We have not concluded that a loss related to this matter is probable nor have we accrued a loss contingency related to this matter. Plaintiffs have not provided a dollar amount of their claim and we are not able to estimate a possible range of loss. We believe we have meritorious defenses to this case and intend to defend it vigorously. There can be no assurances, however, as to the outcome of this case or its impact on our consolidated results of operations.

**EXPRESS IRA LITIGATION** – We have been named defendants in lawsuits regarding our former Express IRA product. All of those lawsuits have been settled or otherwise resolved, except for one.

The one remaining case was filed on January 2, 2008 by the Mississippi Attorney General in the Chancery Court of Hinds County, Mississippi First Judicial District (Case No. G 2008 6 S 2) and is styled *Jim Hood, Attorney for the State of Mississippi v. H&R Block, Inc., H&R Block Financial Advisors, Inc., et al.* The complaint alleges fraudulent business practices, deceptive acts and practices, common law fraud and breach of fiduciary duty with respect to the sale of the product in Mississippi and seeks equitable relief, disgorgement of profits, damages and restitution, civil penalties and punitive damages. We are not able to estimate a possible range of loss. We believe we have meritorious defenses to the claims in this case, and we intend to defend this case vigorously, but there can be no assurances as to its outcome or its impact on our consolidated results of operations.

Although we sold H&R Block Financial Advisors, Inc. (HRBFA) effective November 1, 2008, we remain responsible for any liabilities relating to the Express IRA litigation, among other things, through an indemnification agreement. A portion of our accrual is related to these indemnity obligations.

**RSM McGLADREY LITIGATION** – RSM EquiCo, its parent and certain of its subsidiaries and affiliates, are parties to a class action filed on July 11, 2006 and styled *Do Right's Plant Growers, et al. v. RSM EquiCo, Inc., et al. (the "RSM Parties"),* Case No. 06 CC00137, in the California Superior Court, Orange County. The complaint contains allegations relating to business valuation services provided by RSM EquiCo, including allegations of fraud, conversion and unfair competition. Plaintiffs seek unspecified actual and punitive damages, in addition to pre-judgment interest and attorneys' fees. On March 17, 2009, the court granted plaintiffs' motion for class certification on all claims. To avoid the cost and inherent risk associated with litigation, the parties have reached an agreement in principle to settle this case, subject to approval by the California Superior Court. The settlement would require a maximum payment of $41.5 million, although the actual cost of the settlement depends on the number of valid claims submitted by class members. The defendants believe they have meritorious defenses to the claims in this case and, if for any reason the settlement is not approved, they will continue to defend the case vigorously. Although we have recorded a liability for expected losses, there can be no assurance regarding the outcome of this matter.

On December 7, 2009, a lawsuit was filed in the Circuit Court of Cook County, Illinois (2010-L-014920) against M&P, RSM and H&R Block styled *Ronald R. Peterson ex rel. Lancelot Investors Fund, L.P., et al. v. McGladrey & Pullen LLP, et al.* The case was removed to the United States District Court for the Northern District of Illinois on December 28, 2009 (Case No. 1:10-CV-00274). The complaint, which was filed by the trustee for certain bankrupt investment funds, seeks unspecified damages and asserts claims against RSM for vicarious liability and alter ego liability and against H&R Block for equitable restitution relating to audit work performed by M&P. The amount claimed in this case is substantial. On November 3, 2010, the court dismissed the case against all defendants in its entirety with prejudice. The trustee has filed an appeal to the Seventh Circuit Court of Appeals with respect to the claims against M&P and RSM. The appeal remains pending.

RSM and M&P operate in an alternative practice structure ("APS"). Accordingly, certain claims and lawsuits against M&P could have an impact on RSM. More specifically, any judgments or settlements arising from claims and lawsuits against M&P that exceed its insurance coverage could have a direct adverse effect on M&P's operations. Although RSM is not responsible for the liabilities of M&P, significant M&P litigation and claims could impair the profitability of the APS and impair the ability to attract and retain clients and quality professionals. This could, in turn, have a material effect on RSM's operations and impair the value of our investment in RSM. There is no assurance regarding the outcome of any claims or litigation involving M&P.

**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 and HRB remain subject to investigations, claims and lawsuits pertaining to its mortgage business activities that occurred prior to such termination and sale. These investigations, claims and lawsuits include actions by state attorneys general, other state and federal 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, fraud, and violations of securities laws, the Truth in Lending Act, Equal Credit Opportunity Act and the Fair Housing Act. Given the 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 and thus cannot be reasonably estimated. In the event of unfavorable outcomes, the amounts that may be required to pay in the discharge of liabilities or settlements could be substantial and could have a material 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) styled *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. In November 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 (1) advance notice to the Massachusetts Attorney General and (2) if the Attorney General objects to foreclosure, approval by the court. An appeal of the preliminary injunction was denied. A portion of our loss contingency accrual is related to this matter for the amount of loss that we consider probable and estimable. We do not believe losses in excess of our accrual would be material to our financial statements, although it is possible that our losses could exceed the amount we have accrued. We and SCC believe we have meritorious defenses to the claims presented and intend to

defend them vigorously. There can be no assurances, however, as to the outcome of this matter or its impact on our consolidated results of operations.

On October 15, 2010, the Federal Home Loan Bank of Chicago filed a lawsuit in the Circuit Court of Cook County, Illinois (Case No. 10CH45033) styled *Federal Home Loan Bank of Chicago v. Bank of America Funding Corporation, et al.* against multiple defendants, including various SCC related entities and H&R Block, Inc. related entities, arising out of Federal Home Loan Bank's (FHLB's) purchase of mortgage-backed securities. Plaintiff asserts claims for rescission and damages under state securities law and for common law negligent misrepresentation in connection with its purchase of two securities originated and securitized by SCC. These two securities had a total initial principal amount of approximately $50 million, of which approximately $42 million remains outstanding. We have not concluded that a loss related to this matter is probable nor have we established a loss contingency related to this matter. We believe the claims in this case are without merit and we intend to defend them vigorously. There can be no assurances, however, as to its outcome or its impact on our consolidated results of operations.

**OTHER CLAIMS AND LITIGATION** – We have been named in several wage and hour class action lawsuits throughout the country, including *Alice Williams v. H&R Block Enterprises LLC*, Case No.RG08366506 (Superior Court of California, County of Alameda, filed January 17, 2008) (alleging improper classification of office managers in California); *Arabella Lemus v. H&R Block Enterprises LLC, et al.,* Case No. CGC-09-489251 (United States District Court, Northern District of California, filed June 9, 2009) (alleging failure to timely pay compensation to tax professionals in California and to include itemized information on wage statements); *Delana Ugas v. H&R Block Enterprises LLC, et al.,* Case No. BC417700 (United States District Court, Central District of California, filed July 13, 2009) (alleging failure to compensate tax professionals in California and eighteen other states for all hours worked and to provide meal periods); and *Barbara Petroski v. H&R Block Eastern Enterprises, Inc., et al.,* Case No. 10-CV-00075 (United States District Court, Western District of Missouri, filed January 25, 2010) (alleging failure to compensate tax professionals nationwide for off-season training). A class was certified in the *Lemus* case in December 2010 (consisting of tax professionals who worked in company-owned offices in California from 2007 to 2010) and in the *Williams* case in March 2011 (consisting of office managers who worked in company-owned offices in California from 2004 to 2011). A conditional class was certified in the *Petroski* case in March 2011 (consisting of tax professionals who were not compensated for certain training courses occurring on or after April 15, 2007).

The plaintiffs in the wage and hour class action lawsuits seek actual damages, pre-judgment interest and attorneys' fees, in addition to statutory penalties under California and federal law, which could equal up to 30 days of wages per tax season for class members who worked in California. A portion of our loss contingency accrual is related to these lawsuits for the amount of loss that we consider probable and estimable. For those wage and hour class action lawsuits for which we are able to estimate a range of possible loss, the current estimated range is $0 to $70 million in excess of the accrued liability related to those matters. This estimated range of possible loss is based upon currently available information and is subject to significant judgment and a variety of assumptions and uncertainties. The matters underlying the estimated range will change from time to time, and actual results may vary significantly from the current estimate. Because this estimated range does not include matters for which an estimate is not possible, the range does not represent our maximum loss exposure for the wage and hour class action lawsuits. We believe we have meritorious defenses to the claims in these lawsuits and intend to defend them vigorously. The amounts claimed in these matters are substantial in some instances and the ultimate liability with respect to these matters is difficult to predict. There can be no assurances as to the outcome of these cases or their impact on our consolidated results of operations, individually or in the aggregate.

In October 2010, we signed a definitive merger agreement to acquire all of the outstanding shares of 2SS Holdings, Inc. ("2SS"), developer of TaxACT digital tax preparation solutions, for $287.5 million in cash. In May 2011, the United States Department of Justice (the "DOJ") filed a civil antitrust lawsuit in the U.S. district court in Washington, D.C., (Case No. 1:11-cv-00948) against H&R Block and 2SS styled *United States v. H&R Block, Inc., 2SS Holdings, Inc., and TA IX L.P.*, to block our proposed acquisition of 2SS. There are no assurances that the DOJ's lawsuit will be resolved in our favor or that the transaction will be consummated.

In addition, 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. We believe we have meritorious defenses to each of these investigations, claims and lawsuits, and we are defending or intend to defend them vigorously. The amounts claimed in these matters are substantial in some instances, however, the ultimate liability with respect to such matters 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 have a material impact on our consolidated results of operations.

We are also 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 the preparation of customers' income tax returns, the fees charged customers for various products and services, 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 impact on our consolidated results of operations.

## NOTE 20: 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 of April 30, 2011, HRB Bank's leverage ratio was 30.8%.

As of March 31, 2011, 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 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 March 31, 2011 that management believes have changed HRB Bank's category.

The following table sets forth HRB Bank's regulatory capital requirements, as calculated in its TFR:

(dollars in 000s)

| | Actual | | For Capital Adequacy Purposes | | To Be Well Capitalized Under Prompt Corrective Action Provisions | |
|---|---|---|---|---|---|---|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| As of March 31, 2011: | | | | | | |
| Total risk-based capital ratio (1) | **$ 405,000** | **92.5%** | **$ 35,019** | **8.0%** | **$ 43,773** | **10.0%** |
| Tier 1 risk-based capital ratio (2) | **$ 399,187** | **91.2%** | **N/A** | **N/A** | **$ 26,264** | **6.0%** |
| Tier 1 capital ratio (leverage) (3) | **$ 399,187** | **22.8%** | **$ 209,758** | **12.0%** | **$ 87,399** | **5.0%** |
| Tangible equity ratio (4) | **$ 399,187** | **22.8%** | **$ 26,220** | **1.5%** | **N/A** | **N/A** |
| As of March 31, 2010: | | | | | | |
| Total risk-based capital ratio (1) | $ 420,401 | 75.7% | $ 44,436 | 8.0% | $ 55,545 | 10.0% |
| Tier 1 risk-based capital ratio (2) | $ 413,074 | 74.4% | N/A | N/A | $ 33,327 | 6.0% |
| Tier 1 capital ratio (leverage) (3) | $ 413,074 | 24.9% | $ 199,272 | 12.0% | $ 83,030 | 5.0% |
| Tangible equity ratio (4) | $ 413,074 | 24.9% | $ 24,909 | 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.

Block Financial LLC (BFC) typically makes capital contributions to HRB Bank to help it meet its capital requirements. BFC made capital contributions to HRB Bank of $235.0 million during fiscal years 2011 and 2010, and $245.0 million during fiscal year 2009.

HRB Bank received approval from the OTS during fiscal year 2011 to pay cash and non-cash dividends. The dividend payments were subject to HRB Bank maintaining a leverage capital ratio of 12% immediately after payment and on a continual basis. HRB Bank paid dividends and returned of capital of $262.5 million during fiscal year 2011, comprised of $37.5 million in REO properties and loans and $225.0 million in cash.

## NOTE 21:SEGMENT INFORMATION

Management has determined the reportable segments identified below according to types of services offered and the manner in which operational decisions are made. Operating results of our reportable segments are all seasonal.

**TAX SERVICES** – Our Tax Services segment is primarily engaged in providing tax return preparation and related services and products in the U.S. and its territories, Canada and Australia. Major revenue sources include fees earned for tax preparation services performed at company-owned retail tax offices, royalties from franchise retail tax offices, fees for tax-related services, sales of tax preparation software, online tax preparation fees, fees from refund anticipation checks (RACs), prior year participation in RALs, fees from activities related to H&R Block Prepaid Emerald MasterCard®, and interest and fees from Emerald Advance lines of credit. HRB Bank also offers traditional banking services including checking and savings accounts, individual retirement accounts and certificates of deposit.

Our international operations contributed $205.8 million, $190.9 million and $160.7 million in revenues for fiscal years 2011, 2010 and 2009, respectively, and $46.2 million, $46.7 million and $31.6 million of pretax income, respectively.

**BUSINESS SERVICES** – This segment offers tax and consulting services, wealth management, and capital markets services to middle-market companies in offices located throughout the U.S.

**CORPORATE** – This segment’s operations include interest income from U.S. passive investments, interest expense on borrowings, net interest margin and gains or losses relating to mortgage loans held for investment, real estate owned, residual interests in securitizations and other corporate expenses, principally related to finance, legal and other support departments.

**IDENTIFIABLE ASSETS** – Identifiable assets are those assets, including goodwill and intangible assets, associated with each reportable segment. The remaining assets are classified as Corporate assets, which consist primarily of cash and marketable securities. The carrying value of assets held outside the U.S. totaled $206.3 million, $166.8 million and $126.8 million at April 30, 2011, 2010 and 2009, respectively.

Information concerning the Company’s operations by reportable segment is as follows:

(in 000s)

| Year Ended April 30, | 2011 | 2010 | 2009 |
|---|---|---|---|
| **REVENUES :** | | | |
| Tax Services | $ 2,912,361 | $ 2,975,252 | $ 3,132,077 |
| Business Services | 829,794 | 860,349 | 897,809 |
| Corporate | 32,141 | 38,731 | 53,691 |
| | $ 3,774,296 | $ 3,874,332 | $ 4,083,577 |
| **INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE TAXES :** | | | |
| Tax Services | $ 767,498 | $ 867,362 | $ 927,048 |
| Business Services | 49,003 | 58,714 | 96,097 |
| Corporate | (139,476) | (141,941) | (183,775) |
| | $ 677,025 | $ 784,135 | $ 839,370 |
| **DEPRECIATION AND AMORTIZATION :** | | | |
| Tax Services | $ 87,666 | $ 88,523 | $ 79,415 |
| Business Services | 30,692 | 33,064 | 36,748 |
| Corporate | 3,275 | 5,314 | 7,468 |
| | $ 121,633 | $ 126,901 | $ 123,631 |
| **CAPITAL EXPENDITURES :** | | | |
| Tax Services | $ 43,043 | $ 78,108 | $ 76,305 |
| Business Services | 19,873 | 12,318 | 21,185 |
| Corporate | 43 | 89 | 390 |
| | $ 62,959 | $ 90,515 | $ 97,880 |
| **IDENTIFIABLE ASSETS :** | | | |
| Tax Services | $ 2,267,236 | $ 2,279,161 | $ 2,117,475 |
| Business Services | 851,764 | 806,688 | 897,250 |
| Corporate | 2,088,961 | 2,148,469 | 2,344,997 |
| | $ 5,207,961 | $ 5,234,318 | $ 5,359,722 |

## NOTE 22: QUARTERLY FINANCIAL DATA (UNAUDITED)

(in 000s, except per share amounts)

| | Fiscal Year 2011 | Apr 30, 2011 | Jan 31, 2011 | Oct 31, 2010 | Jul 31, 2010 |
|---|---|---|---|---|---|
| Revenues | $ 3,774,296 | $ 2,325,451 | $ 851,482 | $ 322,889 | $ 274,474 |
| Income (loss) from continuing operations before taxes (benefit) | $ 677,025 | $ 1,076,910 | $ (17,449) | $ (175,119) | $ (207,317) |
| Income taxes (benefit) | 257,620 | 418,680 | (13,074) | (68,307) | (79,679) |
| Net income (loss) from continuing operations | 419,405 | 658,230 | (4,375) | (106,812) | (127,638) |
| Net income (loss) from discontinued operations | (13,295) | 331 | (8,346) | (2,237) | (3,043) |
| Net income (loss) | $ 406,110 | $ 658,561 | $ (12,721) | $ (109,049) | $ (130,681) |
| Basic earnings (loss) per share: | | | | | |
| Net income (loss) from continuing operations | $ 1.35 | $ 2.15 | $ (0.01) | $ (0.35) | $ (0.40) |
| Net loss from discontinued operations | (0.04) | — | (0.03) | (0.01) | (0.01) |
| Net income (loss) | $ 1.31 | $ 2.15 | $ (0.04) | $ (0.36) | $ (0.41) |
| Diluted earnings (loss) per share: | | | | | |
| Net income (loss) from continuing operations | $ 1.35 | $ 2.14 | $ (0.01) | $ (0.35) | $ (0.40) |
| Net loss from discontinued operations | (0.04) | — | (0.03) | (0.01) | (0.01) |
| Net income (loss) | $ 1.31 | $ 2.14 | $ (0.04) | $ (0.36) | $ (0.41) |

| | Fiscal Year 2010 | Apr 30, 2010 | Jan 31, 2010 | Oct 31, 2009 | Jul 31, 2009 |
|---|---|---|---|---|---|
| Revenues | $ 3,874,332 | $ 2,337,894 | $ 934,852 | $ 326,081 | $ 275,505 |
| Income (loss) from continuing operations before taxes (benefit) | $ 784,135 | $ 1,110,410 | $ 97,451 | $ (212,853) | $ (210,873) |
| Income taxes (benefit) | 295,189 | 417,978 | 43,848 | (86,381) | (80,256) |
| Net income (loss) from continuing operations | 488,946 | 692,432 | 53,603 | (126,472) | (130,617) |
| Net loss from discontinued operations | (9,704) | (1,604) | (2,968) | (2,115) | (3,017) |
| Net income (loss) | $ 479,242 | $ 690,828 | $ 50,635 | $ (128,587) | $ (133,634) |
| Basic earnings (loss) per share: | | | | | |
| Net income (loss) from continuing operations | $ 1.47 | $ 2.11 | $ 0.16 | $ (0.38) | $ (0.39) |
| Net loss from discontinued operations | (0.03) | — | (0.01) | — | (0.01) |
| Net income (loss) | $ 1.44 | $ 2.11 | $ 0.15 | $ (0.38) | $ (0.40) |
| Diluted earnings (loss) per share: | | | | | |
| Net income (loss) from continuing operations | $ 1.46 | $ 2.11 | $ 0.16 | $ (0.38) | $ (0.39) |
| Net loss from discontinued operations | (0.03) | (0.01) | (0.01) | — | (0.01) |
| Net income (loss) | $ 1.43 | $ 2.10 | $ 0.15 | $ (0.38) | $ (0.40) |

The accumulation of four quarters in fiscal years 2011 and 2010 for earnings per share may not equal the related per share amounts for the years ended April 30, 2011 and 2010 due to the timing of the exercise of stock options and

lapse of certain restrictions on nonvested shares and the antidilutive effect of stock options and nonvested shares in the first two quarters for those years, as well as the retirement of treasury shares.

| | Fiscal Year | Fourth Quarter | Third Quarter | Second Quarter | First Quarter |
|---|---|---|---|---|---|
| FISCAL YEAR 2011: | | | | | |
| Dividends paid per share | $ 0.60 | $ 0.15 | $ 0.15 | $ 0.15 | $ 0.15 |
| Stock price range: | | | | | |
| High | $ 18.99 | $ 18.00 | $ 13.79 | $ 15.97 | $ 18.99 |
| Low | 10.13 | 12.46 | 11.15 | 10.13 | 13.44 |
| FISCAL YEAR 2010: | | | | | |
| Dividends paid per share | $ 0.60 | $ 0.15 | $ 0.15 | $ 0.15 | $ 0.15 |
| Stock price range: | | | | | |
| High | $ 23.23 | $ 21.84 | $ 23.23 | $ 20.00 | $ 17.85 |
| Low | 13.73 | 15.90 | 18.10 | 16.41 | 13.73 |

## NOTE 23: CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

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, the CLOCs 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)

| Year Ended April 30, 2011 | H&R Block, Inc. (Guarantor) | BFC (Issuer) | Other Subsidiaries | Elims | Consolidated H&R Block |
|---|---|---|---|---|---|
| Total revenues | $ – | $ 251,521 | $ 3,522,775 | $ – | $ 3,774,296 |
| Cost of revenues | – | 277,099 | 2,137,491 | – | 2,414,590 |
| Selling, general and administrative | – | 31,914 | 662,222 | – | 694,136 |
| Total expenses | – | 309,013 | 2,799,713 | – | 3,108,726 |
| Operating income (loss) | – | (57,492) | 723,062 | – | 665,570 |
| Other income, net | 677,025 | 5,503 | 5,952 | (677,025) | 11,455 |
| Income (loss) from continuing operations before taxes (benefit) | 677,025 | (51,989) | 729,014 | (677,025) | 677,025 |
| Income taxes (benefit) | 257,620 | (27,774) | 285,394 | (257,620) | 257,620 |
| Net income (loss) from continuing operations | 419,405 | (24,215) | 443,620 | (419,405) | 419,405 |
| Net loss from discontinued operations | (13,295) | (12,417) | (878) | 13,295 | (13,295) |
| Net income (loss) | $ 406,110 | $ (36,632) | $ 442,742 | $ (406,110) | $ 406,110 |

| Year Ended April 30, 2010 | H&R Block, Inc. (Guarantor) | BFC (Issuer) | Other Subsidiaries | Elims | Consolidated H&R Block |
|---|---|---|---|---|---|
| Total revenues | $ – | $ 271,704 | $ 3,602,721 | $ (93) | $ 3,874,332 |
| Cost of revenues | – | 257,245 | 2,210,868 | (117) | 2,467,996 |
| Selling, general and administrative | – | 36,946 | 594,646 | (93) | 631,499 |
| Total expenses | – | 294,191 | 2,805,514 | (210) | 3,099,495 |
| Operating income (loss) | – | (22,487) | 797,207 | 117 | 774,837 |
| Other income, net | 784,135 | 5,644 | 3,771 | (784,252) | 9,298 |
| Income (loss) from continuing operations before taxes (benefit) | 784,135 | (16,843) | 800,978 | (784,135) | 784,135 |
| Income taxes (benefit) | 295,189 | (6,368) | 301,557 | (295,189) | 295,189 |
| Net income (loss) from continuing operations | 488,946 | (10,475) | 499,421 | (488,946) | 488,946 |
| Net loss from discontinued operations | (9,704) | (5,276) | (4,428) | 9,704 | (9,704) |
| Net income (loss) | $ 479,242 | $ (15,751) | $ 494,993 | $ (479,242) | $ 479,242 |

| Year Ended April 30, 2009 | H&R Block, Inc. (Guarantor) | BFC (Issuer) | Other Subsidiaries | Elims | Consolidated H&R Block |
|---|---|---|---|---|---|
| Total revenues | $ – | $ 251,758 | $ 3,834,880 | $ (3,061) | $ 4,083,577 |
| Cost of revenues | – | 278,789 | 2,317,439 | (10) | 2,596,218 |
| Selling, general and administrative | – | 66,230 | 582,812 | (552) | 648,490 |
| Total expenses | – | 345,019 | 2,900,251 | (562) | 3,244,708 |
| Operating income (loss) | – | (93,261) | 934,629 | (2,499) | 838,869 |
| Other income (expense), net | 839,370 | (5,992) | 6,461 | (839,338) | 501 |
| Income (loss) from continuing operations before taxes (benefit) | 839,370 | (99,253) | 941,090 | (841,837) | 839,370 |
| Income taxes (benefit) | 326,315 | (40,386) | 367,660 | (327,274) | 326,315 |
| Net income (loss) from continuing operations | 513,055 | (58,867) | 573,430 | (514,563) | 513,055 |
| Net loss from discontinued operations | (27,382) | (29,176) | – | 29,176 | (27,382) |
| Net income (loss) | $ 485,673 | $ (88,043) | $ 573,430 | $ (485,387) | $ 485,673 |

## CONDENSED CONSOLIDATING BALANCE SHEETS

(in 000s)

| April 30, 2011 | H&R Block, Inc. (Guarantor) | BFC (Issuer) | Other Subsidiaries | Elims | Consolidated H&R Block |
|---|---|---|---|---|---|
| Cash & cash equivalents | $ – | $ 616,238 | $ 1,061,656 | $ (50) | $ 1,677,844 |
| Cash & cash equivalents – restricted | – | 9,522 | 38,861 | – | 48,383 |
| Receivables, net | 88 | 102,011 | 390,191 | – | 492,290 |
| Mortgage loans held for investment, net | – | 485,008 | – | – | 485,008 |
| Intangible assets and goodwill, net | – | – | 1,214,164 | – | 1,214,164 |
| Investments in subsidiaries | 2,699,555 | – | 32 | (2,699,555) | 32 |
| Other assets | 13,613 | 469,461 | 807,166 | – | 1,290,240 |
| Total assets | $ 2,713,256 | $ 1,682,240 | $ 3,512,070 | $ (2,699,605) | $ 5,207,961 |
| Customer deposits | $ – | $ 852,270 | $ – | $ (50) | $ 852,220 |
| Long-term debt | – | 998,965 | 50,789 | – | 1,049,754 |
| FHLB borrowings | – | 25,000 | – | – | 25,000 |
| Other liabilities | 178 | (26,769) | 1,858,004 | – | 1,831,413 |
| Net intercompany advances | 1,263,504 | 24,173 | (1,287,677) | – | – |
| Stockholders' equity | 1,449,574 | (191,399) | 2,890,954 | (2,699,555) | 1,449,574 |
| Total liabilities and stockholders' equity | $ 2,713,256 | $ 1,682,240 | $ 3,512,070 | $ (2,699,605) | $ 5,207,961 |

| April 30, 2010 | H&R Block, Inc. (Guarantor) | BFC (Issuer) | Other Subsidiaries | Elims | Consolidated H&R Block |
|---|---|---|---|---|---|
| Cash & cash equivalents | $ – | $ 702,021 | $ 1,102,135 | $ (111) | $ 1,804,045 |
| Cash & cash equivalents – restricted | – | 6,160 | 28,190 | – | 34,350 |
| Receivables, net | 57 | 105,192 | 412,737 | – | 517,986 |
| Mortgage loans held for investment, net | – | 595,405 | – | – | 595,405 |
| Intangible assets and goodwill, net | – | – | 1,207,879 | – | 1,207,879 |
| Investments in subsidiaries | 3,276,597 | – | 231 | (3,276,597) | 231 |
| Other assets | 19,014 | 332,782 | 722,626 | – | 1,074,422 |
| Total assets | $ 3,295,668 | $ 1,741,560 | $ 3,473,798 | $ (3,276,708) | $ 5,234,318 |
| Customer deposits | $ – | $ 852,666 | $ – | $ (111) | $ 852,555 |
| Long-term debt | – | 998,605 | 36,539 | – | 1,035,144 |
| FHLB borrowings | – | 75,000 | – | – | 75,000 |
| Other liabilities | 48,775 | 153,154 | 1,629,060 | – | 1,830,989 |
| Net intercompany advances | 1,806,263 | (431,696) | (1,374,567) | – | – |
| Stockholders' equity | 1,440,630 | 93,831 | 3,182,766 | (3,276,597) | 1,440,630 |
| Total liabilities and stockholders' equity | $ 3,295,668 | $ 1,741,560 | $ 3,473,798 | $ (3,276,708) | $ 5,234,318 |

# CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

(in 000s)

| Year Ended April 30, 2011 | H&R Block, Inc. (Guarantor) | BFC (Issuer) | Other Subsidiaries | Elims | Consolidated H&R Block |
|---|---|---|---|---|---|
| Net cash provided by (used in) operating activities: | $ 9,683 | $ (153,471) | $ 656,291 | $ – | $ 512,503 |
| Cash flows from investing: | | | | | |
| Purchases of AFS securities | – | (138,824) | – | – | (138,824) |
| Maturities and payments received on AFS securities | – | 16,690 | 107 | – | 16,797 |
| Mortgage loans held for investment, net | – | 58,471 | – | – | 58,471 |
| Purchases of property & equipment | – | (33) | (62,926) | – | (62,959) |
| Payments for business acquisitions, net | – | – | (54,171) | – | (54,171) |
| Proceeds from sales of businesses, net | – | – | 71,083 | – | 71,083 |
| Loans made to franchisees | – | (92,455) | – | – | (92,455) |
| Repayments from franchisees | – | 57,552 | – | – | 57,552 |
| Net intercompany advances | 459,755 | – | – | (459,755) | – |
| Other, net | – | 21,556 | 12,793 | – | 34,349 |
| Net cash provided by (used in) investing activities | 459,755 | (77,043) | (33,114) | (459,755) | (110,157) |
| Cash flows from financing: | | | | | |
| Repayments of commercial paper | – | (4,818,766) | – | – | (4,818,766) |
| Proceeds from commercial paper | – | 4,818,766 | – | – | 4,818,766 |
| Repayments of other borrowings | – | (50,000) | – | – | (50,000) |
| Customer banking deposits, net | – | (11,501) | – | 61 | (11,440) |
| Dividends paid | (186,802) | – | – | – | (186,802) |
| Repurchase of common stock | (283,534) | – | – | – | (283,534) |
| Proceeds from stock options | 424 | – | – | – | 424 |
| Net intercompany advances | – | 206,722 | (666,477) | 459,755 | – |
| Other, net | 474 | (490) | (3,023) | – | (3,039) |
| Net cash provided by (used in) financing activities | (469,438) | 144,731 | (669,500) | 459,816 | (534,391) |
| Effects of exchange rates on cash | – | – | 5,844 | – | 5,844 |
| Net increase (decrease) in cash | – | (85,783) | (40,479) | 61 | (126,201) |
| Cash – beginning of the year | – | 702,021 | 1,102,135 | (111) | 1,804,045 |
| Cash – end of the year | $ – | $ 616,238 | $ 1,061,656 | $ (50) | $ 1,677,844 |

| Year Ended April 30, 2010 | H&R Block, Inc. (Guarantor) | BFC (Issuer) | Other Subsidiaries | Elims | Consolidated H&R Block |
|---|---|---|---|---|---|
| Net cash provided by operating activities: | $ 21,252 | $ 16,698 | $ 549,519 | $ – | $ 587,469 |
| Cash flows from investing: | | | | | |
| Purchases of AFS securities | – | (365) | (5,000) | – | (5,365) |
| Sales and maturities of AFS securities | – | 14,639 | 1,119 | – | 15,758 |
| Mortgage loans held for investment, net | – | 72,832 | – | – | 72,832 |
| Purchases of property & equipment | – | – | (90,515) | – | (90,515) |
| Payments for business acquisitions | – | – | (10,539) | – | (10,539) |
| Proceeds from sales of businesses, net | – | – | 66,623 | – | 66,623 |
| Loans made to franchisees | – | (89,664) | – | – | (89,664) |
| Repayments from franchisees | – | 40,710 | – | – | 40,710 |
| Net intercompany advances | 415,591 | – | – | (415,591) | – |
| Other, net | – | 73,493 | (41,980) | – | 31,513 |
| Net cash provided by (used in) investing activities | 415,591 | 111,645 | (80,292) | (415,591) | 31,353 |
| Cash flows from financing: | | | | | |
| Repayments of commercial paper | – | (1,406,013) | – | – | (1,406,013) |
| Proceeds from commercial paper | – | 1,406,013 | – | – | 1,406,013 |
| Repayments of other borrowings | – | (4,267,727) | (46) | – | (4,267,773) |
| Proceeds from other borrowings | – | 4,242,727 | – | – | 4,242,727 |
| Customer banking deposits, net | – | 11,428 | – | 6,111 | 17,539 |
| Dividends paid | (200,899) | – | – | – | (200,899) |
| Repurchase of common stock | (254,250) | – | – | – | (254,250) |
| Proceeds from stock options | 16,682 | – | – | – | 16,682 |
| Net intercompany advances | – | 354,617 | (770,208) | 415,591 | – |
| Other, net | 1,624 | (8,717) | (28,051) | – | (35,144) |
| Net cash provided by (used in) financing activities | (436,843) | 332,328 | (798,305) | 421,702 | (481,118) |
| Effects of exchange rates on cash | – | – | 11,678 | – | 11,678 |
| Net increase (decrease) in cash | – | 460,671 | (317,400) | 6,111 | 149,382 |
| Cash – beginning of the year | – | 241,350 | 1,419,535 | (6,222) | 1,654,663 |
| Cash – end of the year | $ – | $ 702,021 | $ 1,102,135 | $ (111) | $ 1,804,045 |

| Year Ended April 30, 2009 | H&R Block, Inc. (Guarantor) | BFC (Issuer) | Other Subsidiaries | Elims | Consolidated H&R Block |
|---|---|---|---|---|---|
| Net cash provided by (used in) operating activities: | $ 3,835 | $ (13,225) | $ 1,033,829 | $ – | $ 1,024,439 |
| Cash flows from investing: | | | | | |
| Purchases of AFS securities | – | (875) | (4,217) | – | (5,092) |
| Sales and maturities of AFS securities | – | 8,417 | 6,658 | – | 15,075 |
| Mortgage loans held for investment, net | – | 91,329 | – | – | 91,329 |
| Purchases of property & equipment | – | (43) | (97,837) | – | (97,880) |
| Payments for business acquisitions | – | – | (293,805) | – | (293,805) |
| Proceeds from sales of businesses, net | – | – | 18,865 | – | 18,865 |
| Net intercompany advances | 73,820 | – | – | (73,820) | – |
| Investing cash flows of discontinued operations | – | 255,066 | – | – | 255,066 |
| Other, net | – | 10,056 | 11,946 | – | 22,002 |
| Net cash provided by (used in) investing activities | 73,820 | 363,950 | (358,390) | (73,820) | 5,560 |
| Cash flows from financing: | | | | | |
| Repayments of short-term borrowings | – | (4,762,294) | – | – | (4,762,294) |
| Proceeds from short-term borrowings | – | 4,733,294 | – | – | 4,733,294 |
| Customer banking deposits, net | – | 69,932 | – | (5,575) | 64,357 |
| Dividends paid | (198,685) | – | – | – | (198,685) |
| Acquisition of treasury shares | (106,189) | – | – | – | (106,189) |
| Proceeds from issuance of common stock | 141,415 | – | – | – | 141,415 |
| Proceeds from stock options | 71,594 | – | – | – | 71,594 |
| Net intercompany advances | – | (199,032) | 125,212 | 73,820 | – |
| Financing cash flows of discontinued operations | – | 4,783 | – | – | 4,783 |
| Other, net | 14,210 | 9,331 | (12,049) | – | 11,492 |
| Net cash provided by (used in) financing activities | (77,655) | (143,986) | 113,163 | 68,245 | (40,233) |
| Net increase in cash | – | 206,739 | 788,602 | (5,575) | 989,766 |
| Cash – beginning of the year | – | 34,611 | 630,933 | (647) | 664,897 |
| Cash – end of the year | $ – | $ 241,350 | $ 1,419,535 | $ (6,222) | $ 1,654,663 |

## ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There were no disagreements or reportable events requiring disclosure pursuant to Item 304(b) of Regulation S-K.

## ITEM 9A. CONTROLS AND PROCEDURES

**(a) EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES** – We have established disclosure controls and procedures (Disclosure Controls) to ensure that information required to be disclosed in the Company's reports filed under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the U.S. Securities and Exchange Commission's rules and forms. Disclosure Controls are also designed to ensure that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Our Disclosure Controls were designed to provide reasonable assurance that the controls and procedures would meet their objectives. Our management, including the Chief Executive Officer and Chief Financial Officer, does not expect that our Disclosure Controls will prevent all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable assurance of achieving the designed control objectives and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusions of two or more people or by management override of the control. Because of the inherent limitations in a cost-effective, maturing control system, misstatements due to error or fraud may occur and not be detected.

As of the end of the period covered by this Form 10-K, we evaluated the effectiveness of the design and operations of our Disclosure Controls. 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, our Chief Executive Officer and Chief Financial Officer have concluded our Disclosure Controls were effective as of the end of the period covered by this Annual Report on Form 10-K.

**(b) MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING** – Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company, as such term is defined in Exchange Act Rules 13a-15(f). Under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) as of April 30, 2011.

Based on our assessment, management concluded that, as of April 30, 2011, the Company's internal control over financial reporting was effective based on the criteria set forth by COSO.

The Company's external auditors who audited the consolidated financial statements included in Item 8, Deloitte & Touche LLP, an independent registered public accounting firm, have issued an audit report on the effectiveness of the Company's internal control over financial reporting. This report appears near the beginning of Item 8.

**(c) CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING** – During the quarter ended April 30, 2011, there were no changes that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## ITEM 9B. OTHER INFORMATION

On June 21, 2011, the Company and HRB Island Acquisition, Inc. (the "Sub"), an indirect wholly owned subsidiary of the Company, entered into an amendment (the "Amendment") to the previously disclosed Agreement and Plan of Merger, dated as of October 13, 2010 (the "Merger Agreement"), with 2SS Holdings, Inc. ("2SS"), TA Associates Management, L.P., in its capacity as a stockholder representative, and Lance Dunn, in his capacity as a stockholder representative. 2SS owns 2nd Story Software, Inc., developer of TaxACT digital tax preparation solutions.

The Amendment addresses, among other things, each party's respective obligations regarding the civil antitrust lawsuit instituted by the United States Department of Justice (the "DOJ") to block the transaction (the "DOJ Action") and the extension of the date that either party may terminate the Merger Agreement from May 31, 2011 to the earlier of October 15, 2011 or the date on which an applicable court in the DOJ Action enters a preliminary or permanent injunction that prohibits the closing of the transaction. The Amendment also provides that the external

costs and expenses of all parties that are incurred in connection with the DOJ Action after the date of the Amendment shall be the responsibility of 2SS (subject to the exceptions set forth in the Amendment), but that, if the transaction closes, the Company will reimburse 2SS for such costs and expenses, up to a maximum of $5 million. Except as specifically amended in the Amendment, the other terms of the Merger Agreement remain unchanged.

The foregoing summary of the Amendment does not purport to be complete and is subject to, and qualified in its entirety by, the full text of such Amendment, which is filed herewith as Exhibit **[10.34]** and incorporated herein by reference.

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## PART III

### ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The following information appearing in our definitive proxy statement, to be filed no later than 120 days after April 30, 2011, is incorporated herein by reference:

- Information appearing under the heading "Election of Directors,"
- Information appearing under the heading "Section 16(a) Beneficial Ownership Reporting Compliance,"
- Information appearing under the heading "Board of Directors' Meetings and Committees" regarding identification of the Audit Committee and Audit Committee financial experts.

We have adopted a code of business ethics and conduct that applies to our directors, officers and employees, including our chief executive officer, chief financial officer, principal accounting officer and persons performing similar functions. A copy of the code of business ethics and conduct is available on our website at *www.hrblock.com*. We intend to provide information on our website regarding amendments to or waivers from the code of business ethics and conduct.

Information about our executive officers as of May 15, 2011, is as follows:

| Name, age | Current position | Business experience since May 1, 2006 |
|---|---|---|
| **William C. Cobb**, age 54 | President and Chief Executive Officer, effective May 16, 2011 | President and Chief Executive Officer since May 2011; retired from eBay, Inc. in 2008, having worked there from November 2000 to March 2008, where he most recently served as President of eBay Marketplaces North America for four years; before that he held several senior management positions, including Senior Vice President and General Manager of eBay International and Senior Vice President of Global Marketing. |
| **Alan M. Bennett**, age 60 | President and Chief Executive Officer, until May 16, 2011 | President and Chief Executive Officer from July 2010 to May 2011; Interim Chief Executive Officer from November 2007 to August 2008; Senior Vice President and Chief Financial Officer of Aetna, Inc. from September 2001 until February 2007. |
| **Jeffrey T. Brown**, age 52 | Senior Vice President and Chief Financial Officer | Senior Vice President and Chief Financial Officer since September 2010; Interim Chief Financial Officer from May 1, 2010 to September 2010; Vice President and Corporate Controller from March 2008 until May 2010; Assistant Vice President and Assistant Controller from August 2005 until March 2008; Director of Corporate Accounting, from September 2002 to August 2005. |
| **C.E. Andrews**, age 59 | President and Chief Operating Officer, RSM McGladrey, Inc. | President and Chief Operating Officer, RSM McGladrey since June 2009; President of SLM Corporation (Sallie Mae) from May 2007 until September 2008; Chief Financial Officer of Sallie Mae from 2006 until 2007; Executive Vice President of Accounting and Risk of Sallie Mae from 2003 until 2005. |
| **Philip L. Mazzini**, age 45 | President, Retail Tax Services of HRB Tax Group, Inc. | President, Retail Tax Services of HRB Tax Group since August 2010. Senior Vice President, Tax Operations of HRB Tax Group, Inc. from August 2008 through August 2010. Vice President, Managing Director of HRB Tax Group, Inc. from November 2004 through August 2008. |
| **Robert J. Turtledove**, age 51 | Senior Vice President and Chief Marketing Officer | Senior Vice President and Chief Marketing Officer since August 2009; Chief Marketing Officer of TheLadders.com from June 2007 until June 2009; Chief Concept Officer of Metromedia Restaurant Group from January 2003 until February 2007. |

| Name, age | Current position | Business experience since May 1, 2006 |
| --- | --- | --- |
| **Colby R. Brown**, age 37 | Vice President and Corporate Controller | Vice President and Corporate Controller since September 2010; Assistant Vice President and Controller of HRB Tax Group, Inc. from December 2009 until September 2010; Division Controller, North America, for Fort Dodge Animal Health, a division of Wyeth, from July 2007 to December 2009; Director, Financial Reporting and Analysis, for Fort Dodge Animal Health from September 2002 to July 2007. |

## ITEM 11. EXECUTIVE COMPENSATION

The information called for by this item is contained in our definitive proxy statement filed pursuant to Regulation 14A not later than 120 days after April 30, 2011, in the sections entitled "Director Compensation" and "Executive Compensation" and is incorporated herein by reference.

## ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information called for by this item is contained in Part II, Item 5 of this Form 10-K and in our definitive proxy statement filed pursuant to Regulation 14A not later than 120 days after April 30, 2011, in the section titled "Equity Compensation Plans" and in the section titled "Information Regarding Security Holders" and is incorporated herein by reference.

## ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information called for by this item is contained in our definitive proxy statement filed pursuant to Regulation 14A not later than 120 days after April 30, 2011, in the section titled "Employment Agreements, Change-of-Control and Other Arrangements," in the section titled "Review of Related Person Transactions," and in the section titled "Corporate Governance," and is incorporated herein by reference.

## ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information called for by this item is contained in our definitive proxy statement filed pursuant to Regulation 14A not later than 120 days after April 30, 2011, in the section titled "Audit Fees" and is incorporated herein by reference.

# PART IV

## ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

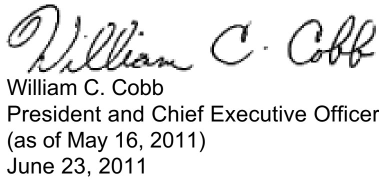
(a) Documents filed as part of this Report:

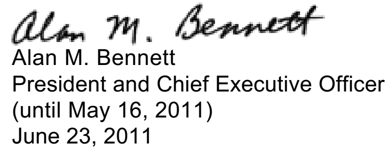
1. The following financial statements appearing in Item 8: "Consolidated Statements of Income and Comprehensive Income (Loss)," "Consolidated Balance Sheets," "Consolidated Statements of Cash Flows" and "Consolidated Statements of Stockholders' Equity."
2. Exhibits – The list of exhibits in the Exhibit Index to this Report is incorporated herein by reference.

## SIGNATURES

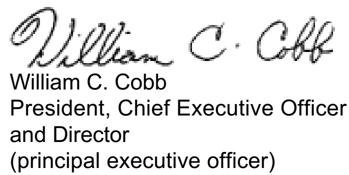
Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

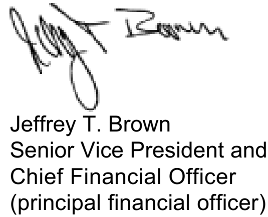
H&R BLOCK, INC.

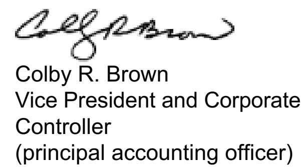

William C. Cobb
President and Chief Executive Officer
(as of May 16, 2011)
June 23, 2011

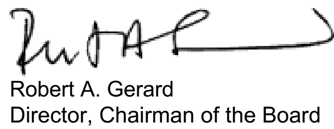

Alan M. Bennett
President and Chief Executive Officer
(until May 16, 2011)
June 23, 2011

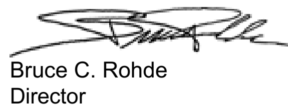
Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated on June 23, 2011.


William C. Cobb
President, Chief Executive Officer
and Director
(principal executive officer)

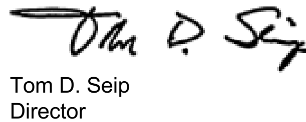

Jeffrey T. Brown
Senior Vice President and
Chief Financial Officer
(principal financial officer)

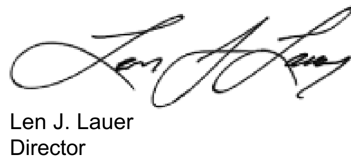

Colby R. Brown
Vice President and Corporate
Controller
(principal accounting officer)

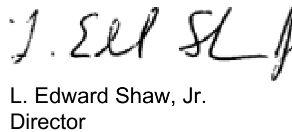

Robert A. Gerard
Director, Chairman of the Board

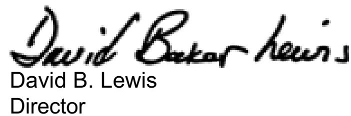

Bruce C. Rohde
Director

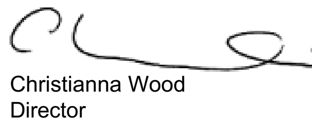
Alan M. Bennett
Director


Tom D. Seip
Director


Len J. Lauer
Director


L. Edward Shaw, Jr.
Director


David B. Lewis
Director


Christianna Wood
Director

## EXHIBIT INDEX

The following exhibits are numbered in accordance with the Exhibit Table of Item 601 of Regulation S-K:

3.1 Amended and Restated Articles of Incorporation of H&R Block, Inc., as amended through September 30, 2010.
3.2 Amended and Restated Bylaws of H&R Block, Inc., as amended through September 30, 2010.
4.1 Indenture dated as of October 20, 1997, among H&R Block, Inc., Block Financial Corporation and Bankers Trust Company, as Trustee, filed as Exhibit 4(a) to the Company's quarterly report on Form 10-Q for the quarter ended October 31, 1997, file number 1-6089, is incorporated herein by reference.
4.2 First Supplemental Indenture, dated as of April 18, 2000, among H&R Block, Inc., Block Financial Corporation, Bankers Trust Company and the Bank of New York, filed as Exhibit 4(a) to the Company's current report on Form 8-K filed April 17, 2000, file number 1-6089, is incorporated herein by reference.
4.3 Officer's Certificate, dated October 26, 2004, in respect of 5.125% Notes due 2014 of Block Financial Corporation, filed as Exhibit 4.1 to the Company's current report on Form 8-K filed October 26, 2004, file number 1-6089, is incorporated herein by reference.
4.4 Officer's Certificate, dated January 11, 2008, in respect of 7.875% Notes due 2013 of Block Financial LLC, filed as Exhibit 4.1 to the Company's current report on Form 8-K filed January 11, 2008, file number 1-6089, is incorporated herein by reference.
4.5 Form of 5.125% Note due 2014 of Block Financial Corporation, filed as Exhibit 4.2 to the Company's current report on Form 8-K filed October 26, 2004, file number 1-6089, is incorporated herein by reference.
4.6 Form of 7.875% Note due 2013 of Block Financial LLC, filed as Exhibit 4.2 to the Company's current report on Form 8-K filed January 11, 2008, file number 1-6089, is incorporated herein by reference.
4.7 Form of Certificate of Designation, Preferences and Rights of Participating Preferred Stock of H&R Block, Inc., filed as Exhibit 4(e) to the Company's annual report on Form 10-K for the fiscal year ended April 30, 1995, file number 1-6089, is incorporated herein by reference.
4.8 Form of Certificate of Amendment of Certificate of Designation, Preferences and Rights of Participating Preferred Stock of H&R Block, Inc., filed as Exhibit 4(j) to the Company's annual report on Form 10-K for the fiscal year ended April 30, 1998, file number 1-6089, is incorporated herein by reference.
4.9 Form of Certificate of Designation, Preferences and Rights of Delayed Convertible Preferred Stock of H&R Block, Inc., filed as Exhibit 4(f) to the Company's annual report on Form 10-K for the fiscal year ended April 30, 1995, file number 1-6089, is incorporated herein by reference.
10.1* The Company's 2003 Long-Term Executive Compensation Plan, as amended September 30, 2010, filed as Exhibit 10.2 to the Company's quarterly report on Form 10-Q for the quarter ended October 31, 2010, file number 1-6089, is incorporated herein by reference.
10.2* Form of 2003 Long-Term Executive Compensation Plan Award Agreement for Restricted Shares, filed as part of Exhibit 10.1 to the Company's quarterly report on Form 10-Q for the quarter ended July 31, 2010, file number 1-6089, is incorporated herein by reference.
10.3* Form of 2003 Long-Term Executive Compensation Plan Award Agreement for Stock Options, filed as part of Exhibit 10.1 to the Company's quarterly report on Form 10-Q for the quarter ended July 31, 2010, file number 1-6089, is incorporated herein by reference.
10.4* H&R Block Deferred Compensation Plan for Executives, as amended and restated effective July 27, 2010, filed as Exhibit 10.4 to the Company's quarterly report on Form 10-Q for the quarter ended July 31, 2010, file number 1-6089, is incorporated herein by reference.
10.5* Amendment No. 1 to the H&R Block Deferred Compensation Plan for Executives, as Amended and Restated, effective as of March 12, 2003, filed as Exhibit 10.5 to the Company's annual report on Form 10-K for the fiscal year ended April 30, 2003, file number 1-6089, is incorporated herein by reference.
10.6* The H&R Block Executive Performance Plan, as amended July 27, 2010.
10.7* The H&R Block, Inc. 2000 Employee Stock Purchase Plan, as amended August 1, 2001, filed as Exhibit 10.2 to the Company's quarterly report on Form 10-Q for the quarter ended October 31, 2001, file number 1-6089, is incorporated herein by reference.
10.8* The H&R Block, Inc. Executive Survivor Plan (as Amended and Restated January 1, 2001) filed as Exhibit 10.4 to the Company's quarterly report on Form 10-Q for the quarter ended October 31, 2000, file number 1-6089, is incorporated herein by reference.
10.9* First Amendment to the H&R Block, Inc. Executive Survivor Plan (as Amended and Restated) effective as of July 1, 2002, filed as Exhibit 10.9 to the Company's annual report on Form 10-K for the fiscal year ended April 30, 2002, file number 1-6089, is incorporated herein by reference.
10.10* Second Amendment to the H&R Block, Inc. Executive Survivor Plan (as Amended and Restated), effective as of March 12, 2003, filed as Exhibit 10.12 to the company's annual report on Form 10-K for the fiscal year ended April 30, 2003, file number 1-6089, is incorporated herein by reference.
10.11* H&R Block Severance Plan, as amended and restated effective July 27, 2010, filed as Exhibit 10.3 to the Company's quarterly report on Form 10-Q for the quarter ended July 31, 2010, file number 1-6089, is incorporated herein by reference.
10.12* H&R Block Inc. Executive Severance Plan, as amended and restated effective July 27, 2010, filed as Exhibit 10.2 to the Company's quarterly report on Form 10-Q for the quarter ended July 31, 2010, file number 1-6089, is incorporated herein by reference.

10.13* Employment Agreement dated July 19, 2008 between H&R Block Management, LLC and Russell P. Smyth, filed as Exhibit 10.1 to the Company's quarterly report on Form 10-Q for the quarter ended July 31, 2008, file number 1-6089, is incorporated herein by reference.

10.14* Separation and Release Agreement dated May 4, 2010, between H&R Block Management, LLC and Becky S. Shulman, filed as Exhibit 10.17 to the company's annual report on Form 10-K for the fiscal year ended April 30, 2010, file number 1-6089, is incorporated herein by reference.

10.15* Employment Agreement dated August 12, 2010, between H&R Block Management, LLC and Alan M. Bennett, filed as Exhibit 10.1 to the Company's current report on Form 8-K filed August 12, 2010, file number 1-6089, is incorporated herein by reference.

10.16* Transition Agreement dated April 27, 2011, between H&R Block Management, LLC and Alan M. Bennett, filed as Exhibit 10.1 to the Company's current report on Form 8-K filed April 29, 2011, file number 1-6089, is incorporated herein by reference.

10.17* Employment Agreement dated April 27, 2011, between H&R Block Management, LLC and William C. Cobb, filed as Exhibit 10.2 to the Company's current report on Form 8-K filed April 29, 2011, file number 1-6089, is incorporated herein by reference.

10.18* Form of Indemnification Agreement for directors, filed as Exhibit 10.1 to the Company's current report on Form 8-K filed December 15, 2005, file number 1-6089, is incorporated herein by reference.

10.19* 2008 Deferred Stock Unit Plan for Outside Directors, as amended and restated as of September 24, 2009, filed as Exhibit 10.19 to the company's annual report on Form 10-K for the fiscal year ended April 30, 2010, file number 1-6089, is incorporated herein by reference.

10.20 HSBC Retail Settlement Products Distribution Agreement dated as of September 23, 2005, among HSBC Bank USA, National Association, HSBC Taxpayer Financial Services Inc., Beneficial Franchise Company Inc., Household Tax Masters Acquisition Corporation, H&R Block Services, Inc., H&R Block Tax Services, Inc., H&R Block Enterprises, Inc., H&R Block Eastern Enterprises, Inc., H&R Block Digital Tax Solutions, LLC, H&R Block Associates, L.P., HRB Royalty, Inc., HSBC Finance Corporation and H&R Block, Inc., filed as Exhibit 10.14 to the quarterly report on Form 10-Q for the quarter ended October 31, 2005, file number 1-6089, is incorporated herein by reference.**

10.21 HSBC Digital Settlement Products Distribution Agreement dated as of September 23, 2005, among HSBC Bank USA, National Association, HSBC Taxpayer Financial Services Inc., H&R Block Digital Tax Solutions, LLC, and H&R Block Services, Inc., filed as Exhibit 10.15 to the quarterly report on Form 10-Q for the quarter ended October 31, 2005, file number 1-6089, is incorporated herein by reference.**

10.22 HSBC Program Appendix of Defined Terms and Rules of Construction, filed as Exhibit 10.18 to the quarterly report on Form 10-Q for the quarter ended October 31, 2005, file number 1-6089, is incorporated herein by reference.**

10.23 Joinder and First Amendment to Program Contracts dated as of November 10, 2006, among HSBC Bank USA, National Association, HSBC Trust Company (Delaware), N.A., HSBC Taxpayer Financial Services Inc., Beneficial Franchise Company Inc., Household Tax Masters Acquisition Corporation, H&R Block Services, Inc., H&R Block Tax Services, Inc., H&R Block Enterprises, Inc., H&R Block Eastern Enterprises, Inc., H&R Block Digital Solutions, LLC,, H&R Block and Associates, L.P., HRB Royalty, Inc., HSBC Finance Corporation, H&R Block, Inc. and Block Financial Corporation, filed as Exhibit 10.25 to the Company's quarterly report on Form 10-Q for the quarter ended January 31, 2007, file number 1-6089, is incorporated herein by reference.**

10.24 Second Amendment to Program Contracts dated as of November 13, 2006, among HSBC Bank USA, National Association, HSBC Trust Company (Delaware), N.A., HSBC Taxpayer Financial Services, Inc., Beneficial Franchise Company Inc., H&R Block Services, Inc., H&R Block Tax Service, Inc., H&R Block Enterprises, Inc., H&R Block Eastern Enterprises, Inc., H&R Block Digital Solutions,, LLC, H&R Block and Associates, L.P., HRB Royalty, Inc., HSBC Finance Corporation, and H&R Block, Inc., filed as Exhibit 10.26 to the Company's quarterly report on Form 10-Q for the quarter ended January 31, 2007, file number 1-6089, is incorporated herein by reference.**

10.25 Third Amendment to Program Contracts dated as of December 5, 2008, by and among HSBC Bank USA, HSBC Trust Company (Delaware), N.A., HSBC Taxpayer Financial Services Inc., Beneficial Franchise Company Inc., HRB Tax Group, Inc., H&R Block Tax Services LLC, H&R Block Enterprises LLC, H&R Block Eastern enterprises, Inc., HRB Digital LLC, Block Financial LLC, HRB Innovations, Inc., HSBC Finance Corporation, and H&R Block, Inc., filed as Exhibit 10.1 to the Company's quarterly report on Form 10-Q for the quarter ended January 31, 2009, file number 1-6089, is incorporated herein by reference.**

10.26 Second Amended and Restated HSBC Refund Anticipation Loan Participation Agreement dated as of January 12, 2010 among Block Financial LLC, HSBC Bank USA, National Association, HSBC Trust Company (Delaware), National Association, and HSBC Taxpayer Financial Services Inc., filed as Exhibit 10.1 to the Company's quarterly report on Form 10-Q for the quarter ended January 31, 2010, file number 1-6089, is incorporated herein by reference.**

10.27 First Amended and Restated HSBC Settlements Products Servicing Agreement dated as of November 13, 2006 among Block Financial Corporation, HSBC Bank USA, National Association, HSBC Trust Company (Delaware), National Association, and HSBC Taxpayer Financial Services, Inc., filed as Exhibit 10.28 to the Company's quarterly report on Form 10-Q for the quarter ended January 31, 2007, file number 1-6089, is incorporated herein by reference.**

10.28 Credit and Guarantee Agreement dated as of March 4, 2010, among Block Financial LLC, H&R Block, Inc., each lender from time to time party thereto, and Bank of America, N.A., filed as Exhibit 10.36 to the company's annual report on Form 10-K for the fiscal year ended April 30, 2010, file number 1-6089, is incorporated herein by reference.

10.29 Advances, Pledge and Security Agreement dated April 17, 2006, between H&R Block Bank and the Federal Home Loan Bank of Des Moines, filed as Exhibit 10.11 to the Company's quarterly report on Form 10-Q for the quarter ended October 31, 2007, file number 1-6089, is incorporated herein by reference.**

| | |
|---|---|
| 10.30 | Amended and Restated Administrative Services Agreement dated as of February 3, 2010 among RSM McGladrey, Inc., H&R Block, Inc. and McGladrey & Pullen, LLP, filed as Exhibit 10.42 to the company's annual report on Form 10-K for the fiscal year ended April 30, 2010, file number 1-6089, is incorporated herein by reference. |
| 10.31 | Governance and Operations Agreement dated as of February 3, 2010 among RSM McGladrey, Inc., H&R Block, Inc. and McGladrey & Pullen LLP, filed as Exhibit 10.43 to the company's annual report on Form 10-K for the fiscal year ended April 30, 2010, file number 1-6089, is incorporated herein by reference. |
| 10.32 | Agreement and Plan of Merger dated as of October 13, 2010, among H&R Block, Inc., HRB Island Acquisition, Inc., 2SS Holdings, Inc., TA Associates Management, L.P. and Lance Dunn, filed as Exhibit 10.1 to the Company's current report on Form 8-K filed October 14, 2010, file number 1-6089, is incorporated herein by reference. |
| 10.33 | Agreement to Extend Outside Date dated March 4, 2011, among H&R Block, Inc., HRB Island Acquisition, Inc., 2SS Holdings, Inc., TA Associates Management, L.P. and Lance Dunn. |
| 10.34 | Amendment to Agreement and Plan of Merger dated June 21, 2011, among H&R Block, Inc., HRB Island Acquisition, Inc., 2SS Holdings, Inc., TA Associates Management, L.P. and Lance Dunn. |
| 12 | Computation of Ratio of Earnings to Fixed Charges for the five years ended April 30, 2011. |
| 21 | Subsidiaries of the Company. |
| 23 | Consent of Deloitte & Touche LLP, Independent Registered Public Accounting Firm. |
| 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 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 pursuant to 18 U.S.C. 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema |
| 101.CAL | XBRL Extension Calculation Linkbase |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase |

* Indicates management contracts, compensatory plans or arrangements.

** Confidential Information has been omitted from this exhibit and filed separately with the Commission pursuant to a confidential treatment request under Rule 24b-2.

**Exhibit 3.1**

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

**(as amended through September 30, 2010)**

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 the General and Business Corporation Law of Missouri. Amendments to the Articles as amended to date were approved by the shareholders on September 4, 2008. On such date, 329,180,751 shares of Common Stock were outstanding and entitled to vote on the amendments. For the amendment to: (1) Article Three, Section 1: 255,392,828 shares voted for, and 1,628,675 voted against; (2) Article Six, Section A: 280,473,181 shares voted for, and 1,520,092 voted against; (3) Article Six, Section B: 198,950,440 shares voted for, and 82,001,691 voted against; and (4) Article Six, Section F: 277,970,752 shares voted for, and 4,090,530 voted against. A restatement of the Articles was approved by resolution of a majority of the board of directors of the corporation on October 15, 2008.

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:

| Name | Residence | No. of Shares |
|---|---|---|
| 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. Any director, or directors, or the entire Board of Directors of the corporation may be removed, with or without cause, at any time but only by the affirmative vote of the holders of at least a majority 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 a majority 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 a majority of the outstanding shares of the corporation entitled to vote on the matter and represented in person or by proxy at a meeting at which a quorum is present, unless a greater vote is required by law, 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 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 a majority 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 any provision of these Articles of Incorporation. The affirmative vote of the holders of not less than a majority of outstanding shares of stock of this corporation entitled to vote generally in the election of directors and represented in person or by proxy at a meeting at which a quorum is present shall be required to amend, modify, alter, or repeal any provision of the corporation’s Bylaws, provided 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 15th day of October, 2008.

H & R BLOCK, INC.

/s/ Bret G. Wilson

Bret G. Wilson
Vice President and Secretary

**Exhibit 3.2**

AMENDED AND RESTATED
BYLAWS
OF
H & R BLOCK, INC.

(as amended through September 30, 2010)

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 (other than nominations for elections as directors)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, as they appear on the corporation's books, of such shareholder and of such beneficial owner, (B) the class or series and number of shares of capital stock of the corporation that are, directly or indirectly, owned beneficially and of record by such shareholder and such beneficial owner, (C) any option, warrant, convertible security, stock appreciation right, or similar right with an exercise or conversion privilege or a settlement payment or mechanism at a price related to any class or series of shares of the corporation or with a value derived in whole or in part from the value of any class or series of shares of the corporation, whether or not such instrument or right shall be subject to settlement in the underlying class or series of capital stock of the corporation or otherwise (a "Derivative Instrument") directly or indirectly owned beneficially by such shareholder or beneficial owner and any other direct or indirect opportunity to profit or share in any profit derived from any increase or decrease in the value of shares of the corporation, (D) any proxy, contract, arrangement, understanding, or relationship pursuant to which such shareholder has a right to vote any shares of any security of the corporation, (E) any short interest of such shareholder or beneficial owner in any security of the corporation (for purposes of this bylaw a person shall be deemed to have a short interest in a security if such person directly or indirectly, through any contract, arrangement, understanding, relationship or otherwise, has the opportunity to profit or share in any profit derived from any decrease in the value of the subject security), (F) any rights to dividends on the shares of the corporation owned beneficially by such shareholder that are separated or separable from the underlying shares of the corporation, (G) any proportionate interest in shares of the corporation or Derivative Instruments held, directly or indirectly, by a general or limited partnership in which such

shareholder is a general partner or, directly or indirectly, beneficially owns an interest in a general partner, (H) any performance-related fees (other than an asset-based fee) that such shareholder is entitled to based on any increase or decrease in the value of shares of the corporation or Derivative Instruments, if any, as of the date of such notice, including without limitation any such interests held by members of such shareholder's immediate family sharing the same household (which information shall be supplemented by such shareholder and beneficial owner, if any, not later than 10 days after the record date for the meeting to disclose such ownership as of the record date) and (I) any other filings required to be made in connection with solicitations of proxies for the proposal pursuant to Section 14 of the Exchange Act and the rules and regulations promulgated thereunder, (J) 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 (K) 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 14a-4(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 a majority 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 beheld, 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. Any director, or directors, or the entire board of directors of the corporation may be removed, with or without cause, at any time but only by the affirmative vote of the holders of at least a majority 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 or by any nominating committee or person appointed by the board of directors 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; clause (ii) shall be the exclusive means for a shareholder to make nominations of persons for election to the board of directors at any annual meeting of shareholders. 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 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. Such shareholder's notice to the secretary shall also set forth as to the shareholder giving the notice and the beneficial owner, if any, on whose behalf the nomination is made, (A) the name and address, as they appear on the corporation's books, of such shareholder and of such beneficial owner, (B) the class or series and number of shares of capital stock of the corporation that are, directly or indirectly, owned beneficially and of record by such shareholder and such beneficial owner, (C) any option, warrant, convertible security, stock appreciation right, or similar right with an exercise or conversion privilege or a settlement payment or mechanism at a price related to any class or series of shares of the corporation or with a value derived in whole or in part from the value of any class or series of shares of the corporation, whether or not such instrument or right shall be subject to settlement in the underlying class or series of capital stock of the corporation or otherwise (a "Derivative Instrument") directly or indirectly owned beneficially by such shareholder or beneficial owner and any other direct or indirect opportunity to profit or share in any profit derived from any increase or decrease in the value of shares of the corporation, (D) any proxy, contract, arrangement, understanding, or relationship pursuant to which such shareholder has a right to vote any shares of any security of the corporation, (E) any short interest of such shareholder or beneficial owner in any security of the corporation (for purposes of this bylaw a person shall be deemed to have a short interest in a security if such person directly or indirectly, through any contract, arrangement, understanding, relationship or otherwise, has the opportunity to profit or share in any profit derived from any decrease in the value of the subject security), (F) any rights to dividends on the shares of the corporation owned beneficially by such shareholder that are separated or separable from the underlying shares of the corporation, (G) any proportionate interest in shares of the corporation or Derivative Instruments held, directly or indirectly, by a general or limited partnership in which such shareholder is a general partner or, directly or indirectly, beneficially owns an interest in a general partner, (H) any performance-related fees (other than an asset-based fee) that such shareholder is entitled to

based on any increase or decrease in the value of shares of the corporation or Derivative Instruments, if any, as of the date of such notice, including without limitation any such interests held by members of such shareholder's immediate family sharing the same household (which information shall be supplemented by such shareholder and beneficial owner, if any, not later than 10 days after the record date for the meeting to disclose such ownership as of the record date) and (I) any other filings required to be made in connection with solicitations of proxies for the election of directors in a contested election pursuant to Section 14 of the Exchange Act and the rules and regulations promulgated thereunder. 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.

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;

(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 at least a majority of the outstanding shares of the corporation entitled to vote on the matter and present in person or by proxy at a meeting at which a quorum is present, unless a greater approval requirement is required by law, 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 at least a majority of the outstanding shares of stock of this corporation entitled to vote generally in the election of directors and represented in person or by proxy at a meeting at which a quorum is present.

**Exhibit 10.6**

# H&R BLOCK EXECUTIVE PERFORMANCE PLAN
# (AS AMENDED ON JULY 27, 2010)

## ARTICLE I. GENERAL

**SECTION 1.1 PURPOSE.** The purpose of the H&R Block Executive Performance Plan (the "Plan") is to attract and retain highly qualified individuals as executive officers; to obtain from each the best possible performance in order to achieve particular business objectives established for H&R Block, Inc. (the "Company") and its subsidiaries; and to include in their compensation package a bonus component intended to qualify as performance-based compensation under Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"), which compensation would be deductible by the Company under the Code.

**SECTION 1.2 ADMINISTRATION.** The Plan shall be administered by the Compensation Committee of the Company's Board of Directors (the "Committee") consisting of at least two members, each of whom shall be an "outside director" within the meaning of Section 162(m) of the Code. The Committee shall adopt such rules and guidelines as it may deem appropriate in order to carry out the purpose of the Plan. All questions of interpretation, administration and application of the Plan shall be determined by a majority of the members of the Committee then in office, except that the Committee may authorize any one or more of its members, or any officer of the Company, to execute and deliver documents on behalf of the Committee. The determination of the majority shall be final and binding in all matters relating to the Plan. The Committee shall have authority to determine the terms and conditions of the Awards granted to eligible persons specified in Section 1.3 below.

**SECTION 1.3 ELIGIBILITY.** Awards may be granted only to employees of the Company or any of its subsidiaries who are at the level of Assistant Vice President or at a more senior level and who are selected for participation in the Plan by the Committee. A qualifying employee so selected shall be a "Participant" in the Plan.

## ARTICLE II. AWARDS

**SECTION 2.1 AWARDS.** The Committee may grant annual performance-based awards ("Awards") to Participants with respect to each fiscal year of the Company, or a portion thereof (each such fiscal year or a portion thereof to constitute a "Performance Period"), subject to the terms and conditions of the Plan. Awards shall be in the form of cash compensation. Within 90 days after the beginning of a Performance Period, the Committee shall establish (a) performance goals and objectives ("Performance Targets") for the Company and the subsidiaries and divisions thereof for such Performance Period, (b) target awards ("Target Awards") for each Participant, which shall be a specified dollar amount, and (c) schedules or other objective methods for determining the applicable performance percentage ("Performance Percentage") to be multiplied by each portion of the Target Award to which a Performance Target relates in arriving at the actual Award payout amount pursuant to Section 2.4 ("Performance Schedules"). The Committee shall specify the Performance Targets applicable to each Participant for each Performance Period and shall further specify the portion of the

Target Award to which each Performance Target shall apply. In no event shall a Performance Schedule include a Performance Percentage in excess of 200%.

**SECTION 2.2 PERFORMANCE TARGETS.** Performance Targets established by the Committee each year shall be based of one or more of the following business criteria: (a) earnings, (b) revenues, (c) sales of products, services or accounts, (d) numbers of income tax returns prepared, (e) margins, (f) earnings per share, (g) return on equity, (h) return on capital, and (i) total shareholder return. For any Performance Period, Performance Targets may be measured on an absolute basis or relative to internal goals, or relative to levels attained in fiscal years prior to the Performance Period.

**SECTION 2.3 EMPLOYMENT REQUIREMENT.** To be eligible to receive payment of an Award, the Participant must have remained in the continuous employ of the Company or its subsidiaries through the end of the applicable Performance Period, provided that, in the event the Participant's employment terminates during the Performance Period due to death, disability or retirement, the Committee may, at its sole discretion, authorize the Company or the applicable subsidiary to pay in full or on a prorated basis an Award determined in accordance with Sections 2.4 and 2.5. For purposes of this Section 2.3, (a) "disability" shall be as defined in the employment practices or policies of the applicable subsidiary of the Company in effect at the time of termination of employment, and (b) "retirement" shall mean termination of employment with all subsidiaries of the Company by the Participant after either attainment of age 65 or attainment of age 55 and the completion of at least ten (10) years of employment with the Company or its subsidiaries.

**SECTION 2.4 DETERMINATION OF AWARDS.** In the manner required by Section 162(m) of the Code, the Committee shall, promptly after the date on which the necessary financial or other information for a particular Performance Period becomes available, certify the extent to which Performance Targets have been achieved. Using the Performance Schedules, the Committee shall determine the Performance Percentage applicable to each Performance Target and multiply the portion of the Target Award to which the Performance Target relates by such Performance Percentage in order to arrive at the actual Award payout for such portion.

At the time Target Awards are determined, the Committee may specify that the Performance Percentage attributable to any one or more portions of a Participant's Target Award may not exceed the Performance Percentage attributable to any other portion of the Participant's Target Award. In the event such specification is made, actual Award payouts shall be determined accordingly.

**SECTION 2.5 LIMITATIONS ON AWARDS.** The aggregate amount of all Awards under the Plan to any Participant for any Performance Period shall not exceed $2,000,000.

**SECTION 2.6 PAYMENT OF AWARDS.** Payment of Awards shall be made by the Company or the applicable employer subsidiary as soon as administratively practical following the certification by the Committee of the extent to which the applicable Performance Targets have been achieved and the determination of the actual Awards in accordance with Sections 2.4

and 2.5. All Awards under the Plan are subject to withholding, where applicable, for federal, state and local taxes.

**SECTION 2.7 ADJUSTMENT OF AWARDS.** In the event of the occurrence during the Performance Period of any recapitalization, reorganization, merger, acquisition, divestiture, consolidation, spin-off, split-off, combination, liquidation, dissolution, sale of assets, other similar corporate transaction or event, any changes in applicable tax laws or accounting principles, or any unusual, extraordinary or nonrecurring events involving the Company which distorts the performance criteria applicable to any Performance Target, the Committee shall adjust the calculation of the performance criteria, and the applicable Performance Targets as is necessary to prevent reduction or enlargement of Participants' Awards under the Plan for such Performance Period attributable to such transaction or event. Such adjustments shall be conclusive and binding for all purposes.

## ARTICLE III. MISCELLANEOUS

**SECTION 3.1 NO RIGHTS TO AWARDS OR CONTINUED EMPLOYMENT.** No employee of the Company or any of its subsidiaries shall have any claim or right to receive Awards under the Plan. Neither the Plan nor any action taken under the Plan shall be construed as giving any employee any right to be retained by the Company or any subsidiary of the Company.

**SECTION 3.2 NO LIMITS ON OTHER AWARDS AND PLANS.** Nothing contained in this Plan shall prohibit the Company or any of its subsidiaries from establishing other special awards or incentive compensation plans providing for the payment of incentive compensation to employees of the Company and its subsidiaries, including any Participants.

**SECTION 3.3 RESTRICTION ON TRANSFER.** The rights of a Participant with respect to Awards under the Plan shall not be transferable by the Participant other than by will or the laws of descent and distribution.

**SECTION 3.4 SOURCE OF PAYMENTS.** The Company and its subsidiaries shall not have any obligation to establish any separate fund or trust or other segregation of assets to provide for payments under the Plan. To the extent any person acquires any rights to receive payments hereunder from the Company or any of its subsidiaries, such rights shall be no greater than those of an unsecured creditor.

**SECTION 3.5 EFFECTIVE DATE; TERM; AMENDMENT.** The Plan is effective as of June 19, 1996, subject to approval by the Company's shareholders at the Company's 1996 annual meeting of shareholders, and shall remain in effect until such time as it shall be terminated by the Board of Directors of the Company. If approval of the Plan meeting the requirements of Section 162(m) of the Code is not obtained at the 1996 annual meeting of shareholders of the Company, then the Plan shall not be effective and any Award made on or after June 19, 1996, shall be void ab initio. The Board of Directors may at any time and from time to time alter, amend, suspend or terminate the Plan in whole or in part.

**SECTION 3.6 PROHIBITED OR UNENFORCEABLE PROVISIONS.** Any provision of the Plan that is prohibited or unenforceable shall be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions of the Plan.

**SECTION 3.7 SECTION 162(M) PROVISIONS.** Any Awards under the Plan shall be subject to the applicable restrictions imposed by Code Section 162(m) and the Treasury Regulations promulgated thereunder, notwithstanding any other provisions of the Plan to the contrary.

**SECTION 3.8 FORFEITURE.** If the Company is required to prepare an accounting restatement due to the Company's material noncompliance with any financial reporting requirement under the securities laws, the Company shall recover from any Participant who is a current or former executive officer of the Company who received payment on an Award during the three-year period preceding the date on which the Company is required to prepare an accounting restatement, based on erroneous data, the amount in excess of what would have been paid to the executive officer under the accounting restatement.

**SECTION 3.9 GOVERNING LAW.** The Plan and all rights and Awards hereunder shall be construed in accordance with and governed by the laws of the State of Missouri.

**Exhibit 10.33**

# AGREEMENT TO EXTEND OUTSIDE DATE

THIS AGREEMENT TO EXTEND OUTSIDE DATE (this "Agreement") dated March 4, 2011 is among (i) H&R BLOCK, INC., a Missouri corporation (the "Acquiror"), (ii) HRB ISLAND ACQUISITION, INC., a Delaware corporation and an indirect wholly owned subsidiary of the Acquiror ( "Sub"), (iii) 2SS HOLDINGS, INC., a Delaware corporation (the " Company"), (iv) TA Associates Management, L.P. solely in its capacity as Stockholder Representative, and (v) Lance Dunn solely in his capacity as Stockholder Representative (each, a " Party" and collectively, the "Parties").

## Recitals

WHEREAS, reference is hereby made to that certain Agreement and Plan of Merger among the Parties dated as of October 13, 2010 (the " Merger Agreement");

WHEREAS, the Merger Agreement provides that either party may terminate the Merger Agreement after the Outside Date of April 30, 2011;

WHEREAS, the Merger Agreement contemplates the extension of the Outside Date upon the written agreement of the Parties; and

WHEREAS, the Parties are in discussions with the U.S. Department of Justice and have accordingly determined to extend the Outside Date.

## Agreement

NOW, THEREFORE, in consideration of the above premises, and of other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound, hereby agree as follows:

1. Defined Terms. All capitalized terms used but not defined herein shall have the meanings ascribed to them in the Merger Agreement.

2. Extension of Outside Date. Pursuant to Section 9.1(c) of the Merger Agreement, the Parties agree to extend the Outside Date one month from April 30, 2011 to May 31, 2011. The Parties agree that, pursuant to Section 9.1(c), the Outside Date may be further extended in one month increments upon the written agreement of the Acquiror and the Stockholder Representatives.

3. Effect on Merger Agreement. Except as provided in this Agreement, the Merger Agreement shall remain in full force and effect and unmodified.

4. Governing Law. This Agreement and all disputes or controversies arising out of or relating to this Agreement or the transactions contemplated hereby shall be governed by, and construed in accordance with, the internal laws of the State of Delaware, without regard to

the laws of any other jurisdiction that might be applied because of the conflicts of laws principles of the State of Delaware.

5. Counterparts. This Agreement may be executed in two or more counterparts, all of which shall be considered one and the same instrument and shall become effective when one or more counterparts have been signed by each of the Parties and delivered to the other Parties.

6. Facsimile Signature. This Agreement may be executed by facsimile signature and a facsimile signature shall constitute an original for all purposes.

**[The remainder of this page is intentionally left blank.]**

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed as of the date first written above by their respective officers thereunto duly authorized.

H&R BLOCK, INC.

By: ______________________________
Name:
Title:

HRB ISLAND ACQUISITION, INC.

By: ______________________________
Name:
Title:

2SS HOLDINGS, INC.

By: ______________________________
Name:
Title:

TA ASSOCIATES MANAGEMENT, L.P.
(solely in its capacity as a Stockholder Representative)

By: ______________________________
Name:
Title:

______________________________
Lance Dunn
(Solely in his capacity as a Stockholder Representative)

Exhibit 10.34

**AMENDMENT TO AGREEMENT AND PLAN OF MERGER**

THIS AMENDMENT TO AGREEMENT AND PLAN OF MERGER (this " Amendment") dated June 21, 2011 is among (i) H&R BLOCK, INC., a Missouri corporation (the "Acquiror"), (ii) HRB ISLAND ACQUISITION, INC., a Delaware corporation and an indirect wholly owned subsidiary of the Acquiror ("Sub"), (iii) 2SS HOLDINGS, INC., a Delaware corporation (the " Company"), (iv) TA Associates Management, L.P. solely in its capacity as Stockholder Representative, and (v) Lance Dunn solely in his capacity as Stockholder Representative.

WHEREAS, reference is hereby made to that certain Agreement and Plan of Merger among the parties hereto dated as of October 13, 2010 (the " Merger Agreement");

WHEREAS, Section 7.1 of the Merger Agreement contains a condition to Closing that no Governmental Authority shall have instituted any Action challenging or seeking to restrain or prohibit the consummation of the Merger;

WHEREAS, on October 26, 2010, the parties filed Premerger Notification and Report Forms under and in compliance with the HSR Act with the Federal Trade Commission and the U.S. Department of Justice ("DOJ," and together with any other appropriate Governmental Authority designated by Law to receive such filings, an "Antitrust Authority") with respect to the transactions contemplated by the Merger Agreement and have filed such other notifications, applications, filings or other information with the DOJ as the parties deemed necessary or desirable in connection with the Merger under applicable Antitrust Law (collectively, the "Antitrust Filings");

WHEREAS, on May 23, 2011, the DOJ instituted an Action seeking to prevent the Merger in a case styled United States of America, U.S. Department of Justice, Antitrust Division v. H&R Block, Inc. et al, Case No. 1:11-cv-00948 (the "DOJ Action") and the parties wish to oppose the DOJ Action;

WHEREAS, the Acquiror has to date borne a larger portion of the costs and expenses of all parties relating to the Antitrust Filings and the parties desire to change the manner in which the parties divide costs going forward regarding the Antitrust Filings and DOJ Action, as set forth herein; and

WHEREAS, Section 10.2 of the Merger Agreement provides for the amendment of the terms of the Merger Agreement upon the written agreement of the parties, and the parties desire to amend the Merger Agreement as set forth herein.

NOW, THEREFORE, in consideration of the above premises, and of other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound, hereby agree as follows:

---

1. Defined Terms. All capitalized terms used but not defined herein shall have the meanings ascribed to them in the Merger Agreement.

2. Satisfaction of Prior Obligations.

2.1 As of the date hereof, each party hereby acknowledges and agrees that each other party hereto has fulfilled any and all obligations under Section 5.6 of the Merger Agreement applicable to such other party through the date hereof, whether express or implied.

2.2 Each party hereby acknowledges and agrees that as of the date hereof, no party has failed to fulfill any obligation under the Merger Agreement prior to the date hereof that has caused the Merger not to be consummated on or prior to the date hereof, and further acknowledges and agrees that either the Company or the Stockholder Representatives, acting together, or the Acquiror has had the right to terminate the Merger Agreement since May 31, 2011, subject to the terms of this Amendment.

3. No Waiver of Closing Conditions. Each party hereby acknowledges and agrees that the approval and execution of this Amendment shall not be deemed to be a waiver of any of the conditions to Closing set forth in Article VII of the Merger Agreement.

4. Section 1.1.

4.1 The definitions of "Escrow Agent" and "Merger Consideration" in Section 1.1 of the Merger Agreement shall be deleted and replaced in their entirety with the following:

"Escrow Agent" means SunTrust Bank, a Georgia banking corporation, or its successor under the Escrow Agreement.

"Merger Consideration" means the sum of (i) $287,500,000, *plus* (ii) the Estimated Net Working Capital Amount set forth in the Net Working Capital Amount Schedule, *plus* (iii) the Reimbursement Amount (as defined in Section 5.6), *minus* (iv) the unpaid Transaction Expenses set forth in the Schedule of Expenses.

4.2 A new clause (iv) shall be added at the end of the first sentence of the definition of "Transaction Expenses" in Section 1.1 as follows: "and (iv) the Antitrust Action Expenses (as defined in Section 5.6)."

5. Section 3.6. The Company represents and warrants to the Acquiror and Sub that a true and complete copy of the unaudited consolidated statement of income of the Company and its Subsidiaries as at April 30, 2011 has been delivered to the Acquiror. Effective from and after the date of this Amendment, the definition of "Unaudited Financial Statements" set forth in Section 3.6 of the Merger Agreement shall be deemed to include the unaudited consolidated statement of income of the Company and its Subsidiaries as at April 30, 2011.

6. Section 3.23(a). A new sentence shall be added at the end of Section 3.23(a), as follows:

Schedule 3.23(a)(i) of the Disclosure Schedules sets forth the information the Company and its Subsidiaries retain regarding the number of clients served in the 12-month period ended April 30, 2011, including, but not limited to, percentages of such customers using free services versus paid services, online versus desktop, professional versus nonprofessional, etc., excluding any such information which, if disclosed to Acquiror, would constitute Competitively Sensitive Information of the Company or its Subsidiaries.

7. Section 5.1(i). Section 5.1(i) of the Merger Agreement shall be deleted and replaced in its entirety with the following:

(i) authorize, or make any commitment with respect to, any single capital expenditure that is in excess of $250,000 or capital expenditures that are, in the aggregate, in excess of $1,000,000 for the Company and its Subsidiaries taken as a whole, or enter into any lease or sublease of real or personal property or any renewals thereof;

8. Section 5.6. Effective from and after the date of this Amendment, Section 5.6 of the Merger Agreement shall be deleted and replaced in its entirety with the following:

Section 5.6 Efforts.

(a) The parties agree that the external costs and expenses of all parties that are incurred in connection with the DOJ Action after the date hereof, including but not limited to attorney fees and costs, all costs associated with experts, witnesses and potential witnesses, all document production costs, and all costs awarded by the court to the DOJ (the "Antitrust Action Expenses"), shall be the responsibility of the Company; provided, however, that " Antitrust Action Expenses" shall not include (i) the attorney fees and expenses of Willkie Farr & Gallagher LLP or the Acquiror's internal legal counsel, (ii) travel costs for the Acquiror's employees, or (iii) any costs or expenses that the Acquiror chooses to incur without the consent of the Company or the Company's outside counsel. If the Closing occurs in accordance with the terms of this Agreement, as amended, or as the Acquiror may otherwise agree in writing, then in connection with the Closing the Acquiror shall reimburse the Company an amount equal to the Antitrust Action Expenses, up to a maximum of five million dollars ($5,000,000) (the "Reimbursement Amount").

(b) The parties shall each cooperate with one another in connection with opposing the DOJ Action, subject to the parties' termination rights set forth in Section 9.1. In connection with such collaboration, each of the parties shall act

in good faith, reasonably, and as promptly as practicable. Subject to applicable Laws relating to the exchange of information and the preservation of any applicable attorney-client privilege, work-product doctrine, self-audit privilege or other similar privilege (collectively, " Legal Privilege"), each party shall (i) promptly inform the other party of any substantive written or oral communication received from any Antitrust Authority or the court before which the DOJ Action is pending relating to the DOJ Action, its Antitrust Filing or the Merger and other transactions contemplated hereby (and if in writing, furnish the other party with a copy of such communication); (ii) provide to the other party, and permit the other party to review and comment upon in advance of submission, all proposed substantive correspondence, filings, and written communications regarding the DOJ Action or to any Antitrust Authority with respect to the Merger and other transactions contemplated hereby; and (iii) not participate in any substantive meeting or discussion in respect of any filings, investigation or inquiry concerning the DOJ Action or the Merger and other transactions contemplated hereby unless it consults with the other party in advance and, except as prohibited by applicable Law or Governmental Authority, gives the other party the opportunity to attend and participate thereat; provided, however, that any exchange of Competitively Sensitive Information shall be limited to the other party's outside antitrust counsel. Without in any way limiting the foregoing, the parties will consult and cooperate with each other, and consider in good faith the views of one another, in connection with any analyses, appearances, presentations, memoranda, briefs, arguments, opinions and proposals made or submitted by or on behalf of any party in connection with proceedings under or relating to any Antitrust Law (including the DOJ Action), except as may be prohibited or restricted by Law.

(c) Notwithstanding anything in this Agreement to the contrary, the Acquiror shall have the sole and exclusive right, to propose, negotiate, offer to commit and effect, by consent decree, hold separate order or otherwise, the Divestiture of such assets of the Acquiror, the Company, or their respective Subsidiaries or otherwise offer to take or offer to commit (and if such offer is accepted, commit to and effect) to take any action as may be required to resolve the DOJ Action.

(d) Notwithstanding anything in this Agreement to the contrary, the Company shall be prohibited from agreeing to any settlement or other concessions with the DOJ regarding the DOJ Action (other than the offers or concessions set forth in the written offer made by the parties to the DOJ prior to the commencement of the DOJ Action) without the express written consent of the Acquiror, including but not limited to an agreement to take any of the following actions (each and collectively a "Divestiture"): (i) extend any such waiting period or agree with any Antitrust Authority not to consummate the transactions contemplated hereby, (ii) negotiate, commit to or effect, by consent decree, hold separate order or otherwise, the sale, divestiture, license or other disposition of

any or all of the capital stock, assets, rights, products or businesses of the Company or the Acquiror and its Subsidiaries or any other restrictions on the activities of the Company or the Acquiror and its Subsidiaries, (iii) terminate, amend or assign existing relationships or contractual rights or obligations, or (iv) amend, assign or terminate existing licenses or other agreements or enter into new licenses or other agreements.

9. Section 8.4(c). The date "July 31, 2010" in Section 8.4(c) of the Merger Agreement shall be deleted and replaced in its entirety with the date "July 31, 2012."

10. Section 9.1. Section 9.1(c) of the Merger Agreement shall be deleted and replaced in its entirety with the following:

(c) by either the Company or the Stockholder Representatives, acting together, or the Acquiror, if the Merger shall not have been consummated on or before the earlier of October 15, 2011 or the date on which an applicable court in the DOJ Action enters a preliminary or permanent injunction that prohibits the closing of the Merger; provided that the right to terminate this Agreement under this Section 9.1(c) shall not be available if the failure of the party requesting termination to fulfill any obligation under this Agreement prior to such date shall have been the cause of the failure of the Merger to be consummated on or prior to such date; provided further that the act itself of properly exercising this termination right shall not alone be considered a cause for the failure to consummate for purposes of this Section 9.1(c); or

11. Section 10.1. Section 10.1 of the Merger Agreement shall be deleted and replaced in its entirety with the following

Section 10.1. Fees and Expenses. Except to the extent provided in Section 5.6(a), all fees and expenses incurred in connection with or related to this Agreement and the Ancillary Agreements and the transactions contemplated hereby and thereby shall be paid by the party incurring such fees or expenses, whether or not such transactions are consummated; provided, however, that if the Merger is consummated, all Transaction Expenses shall be paid as provided in this Agreement.

12. Section 10.5. The first notice address set forth in Section 10.5 for the Company or the Stockholder Representatives shall be deleted and replaced in its entirety with the following:

2SS Holdings, Inc.
c/o Second Story Software, Inc
1425 60th Street NE, Suite 300
Cedar Rapids, IA 52402
Attention: Lance Dunn
Facsimile: (319) 261-0395

13. Exhibit A — Form of Escrow Agreement. Exhibit A to the Merger Agreement shall be deleted and replaced in its entirety with an Escrow Agreement substantially in the form attached hereto as Exhibit A.

14. Effect on Merger Agreement. Except as provided in this Amendment, the Merger Agreement shall remain in full force and effect and unmodified.

15. Governing Law. This Amendment and all disputes or controversies arising out of or relating to this Amendment or the transactions contemplated hereby shall be governed by, and construed in accordance with, the internal laws of the State of Delaware, without regard to the laws of any other jurisdiction that might be applied because of the conflicts of laws principles of the State of Delaware.

16. Counterparts. This Amendment may be executed in two or more counterparts, all of which shall be considered one and the same instrument and shall become effective when one or more counterparts have been signed by each of the parties and delivered to the other parties.

17. Facsimile Signature. This Amendment may be executed by facsimile signature and a facsimile signature shall constitute an original for all purposes.

**[The remainder of this page is intentionally left blank.]**

IN WITNESS WHEREOF, the parties have caused this Amendment to be executed as of the date first written above by their respective officers thereunto duly authorized.

H&R BLOCK, INC.

By: ______________________________
Name:
Title:

HRB ISLAND ACQUISITION, INC.

By: ______________________________
Name:
Title:

2SS HOLDINGS, INC.

By: ______________________________
Name:
Title:

TA ASSOCIATES MANAGEMENT, L.P.
(solely in its capacity as a Stockholder Representative)

By: ______________________________
Name:
Title:

______________________________
Lance Dunn
(Solely in his capacity as a Stockholder Representative)

*Signature Page to Amendment to Merger Agreement*

Schedule 3.23(a)(i)

See attached.

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Exhibit A

See attached.

EXHIBIT 12

**H&R BLOCK**
**Computation of Ratio of Earnings to Fixed Charges**
**(Dollars in thousands)**

| | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| Pretax income from continuing operations | $677,025 | $ 784,135 | $ 839,370 | $ 735,071 | $627,261 |
| FIXED CHARGES: | | | | | |
| Interest expense | 86,947 | 80,395 | 89,959 | 64,509 | 91,134 |
| Interest on deposits | 8,488 | 10,174 | 14,069 | 42,878 | 32,128 |
| Interest portion of net rent expense (a) | 90,692 | 96,541 | 102,685 | 99,871 | 94,978 |
| Total fixed charges | 186,127 | 187,110 | 206,713 | 207,258 | 218,240 |
| Earnings before income taxes and fixed charges | $863,152 | $971,245 | $1,046,083 | $942,329 | $ 845,501 |
| Ratio of earnings to fixed charges | | | | | |
| Including interest on deposits | 4.6 | 5.2 | 5.1 | 4.5 | 3.9 |
| Excluding interest on deposits | 4.8 | 5.4 | 5.4 | 5.7 | 4.5 |

(a) One-third of net rent expense is the portion deemed representative of the interest factor.

Note: In computing the ratio of earnings to fixed charges: (a) earnings have been based on income from continuing operations before income taxes and fixed charges (exclusive of interest capitalized) and (b) fixed charges consist of interest expense and the estimated interest portion of rents. Interest expense on uncertain tax positions has been excluded from fixed charges, as it is included as a component of income taxes in the consolidated financial statements.

Exhibit 21

Subsidiaries of H&R Block, Inc.

The following is a list of the direct and indirect subsidiaries of H&R Block, Inc., a Missouri corporation.

| **Entity Name** | **Domestic Jurisdiction** |
| --- | --- |
| Aculink Mortgage Solutions, LLC | Florida |
| AcuLink of Alabama, LLC | Alabama |
| Ada Services Corporation | Massachusetts |
| BFC Transactions, Inc. | Delaware |
| Birchtree Financial Services, Inc. | Oklahoma |
| Birchtree Insurance Agency, Inc. | Missouri |
| Block Financial LLC | Delaware |
| CFS-McGladrey, LLC | Massachusetts |
| Cfstaffing, Ltd. | British Columbia |
| Companion Insurance, Ltd. | Bermuda |
| Companion Mortgage Corporation | Delaware |
| Creative Financial Staffing of Western Washington, LLC | Massachusetts |
| EquiCo, Inc. | California |
| Express Tax Service, Inc. | Delaware |
| Financial Marketing Services, Inc. | Michigan |
| FM Business Services, Inc. | Delaware |
| Franchise Partner, Inc. | Nevada |
| H&R Block (India) Private Limited | India |
| H&R Block (Nova Scotia), Incorporated | Nova Scotia |
| H&R Block Bank | Federally Chartered |
| H&R Block Canada Financial Services, Inc. | Federally Chartered |
| H&R Block Canada, Inc. | Federally Chartered |
| H&R Block Eastern Enterprises, Inc. | Missouri |
| H&R Block Enterprises LLC | Missouri |
| H&R Block Global Solutions (Hong Kong) Limited | Hong Kong |
| H&R Block Group, Inc. | Delaware |
| H&R Block Insurance Agency, Inc. | Delaware |
| H&R Block Limited | New South Wales |
| H&R Block Management, LLC | Delaware |
| H&R Block Tax and Business Services, Inc. | Delaware |
| H&R Block Tax Institute, LLC | Missouri |

| Entity Name | Domestic Jurisdiction |
| --- | --- |
| H&R Block Tax Services LLC | Missouri |
| H&R Block, Inc. | Missouri |
| HRB Advance LLC | Delaware |
| HRB Center LLC | Missouri |
| HRB Concepts LLC | Delaware |
| HRB Corporate Enterprises LLC | Delaware |
| HRB Corporate Services LLC | Missouri |
| HRB Digital LLC | Delaware |
| HRB Digital Technology Resources LLC | Delaware |
| HRB Expertise LLC | Missouri |
| HRB Innovations, Inc. | Delaware |
| HRB International LLC | Missouri |
| HRB Island Acquisition, Inc. | Delaware |
| HRB Products LLC | Missouri |
| HRB Property LLC | Delaware |
| HRB Retail Support Services LLC | Missouri |
| HRB Support Services LLC | Delaware |
| HRB Tax & Technology Leadership LLC | Missouri |
| HRB Tax Group, Inc. | Missouri |
| HRB Technology Holding LLC | Delaware |
| HRB Technology LLC | Missouri |
| McGladrey Capital Markets Canada Inc. | Federally Chartered |
| McGladrey Capital Markets Europe Limited | United Kingdom |
| McGladrey Capital Markets LLC | Delaware |
| OOMC Holdings LLC | Delaware |
| OOMC Residual Corporation | New York |
| Pension Resources, Inc. | Illinois |
| Provident Mortgage Services, Inc. | Delaware |
| RedGear Technologies, Inc. | Missouri |
| RSM Employer Services Agency of Florida, Inc. | Florida |
| RSM Employer Services Agency, Inc. | Georgia |
| RSM EquiCo, Inc. | Delaware |
| RSM McGladrey Business Services, Inc. | Delaware |
| RSM McGladrey Business Solutions, Inc. | Delaware |
| RSM McGladrey Employer Services, Inc. | Georgia |
| RSM McGladrey Insurance Services, Inc. | Delaware |
| RSM McGladrey TBS, LLC | Delaware |

| **Entity Name** | **Domestic Jurisdiction** |
| --- | --- |
| RSM McGladrey, Inc. | Delaware |
| Sand Canyon Acceptance Corporation | Delaware |
| Sand Canyon Corporation | California |
| Sand Canyon Securities Corp. | Delaware |
| Sand Canyon Securities II Corp. | Delaware |
| Sand Canyon Securities III Corp. | Delaware |
| Sand Canyon Securities IV LLC | Delaware |
| ServiceWorks, Inc. | Delaware |
| TaxNet Inc. | California |
| TaxWorks, Inc. | Delaware |
| West Estate Investors, LLC | Missouri |
| Woodbridge Mortgage Acceptance Corporation | Delaware |

**Exhibit 23**

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in Registration Statement No. 333-118020 on Form S-3 of Block Financial Corporation and Registration Statement Nos. 333-118020-01 and 333-154611 on Form S-3 and Nos. 333-160957, 333-119070, 333-42143, 333-42736, 333-56400, 333-70402, and 333-106710 on Form S-8 of our reports dated June 23, 2011, relating to the consolidated financial statements of H&R Block, Inc., (which report expresses an unqualified opinion and includes an explanatory paragraph regarding H&R Block, Inc.'s adoption of an accounting standard related to consolidation of variable interest entities on May 1, 2010), and the effectiveness of H&R Block Inc.'s internal control over financial reporting, appearing in this Annual Report on Form 10-K of H&R Block Inc. for the year ended April 30, 2011.

Kansas City, Missouri
June 23, 2011

Exhibit 31.1

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

I, William C. Cobb, Chief Executive Officer, certify that:

1. I have reviewed this annual report on Form 10-K 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 principles;

(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 fiscal 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: June 23, 2011

/s/ William C. Cobb
William C. Cobb
Chief Executive Officer
H&R Block, Inc.

Exhibit 31.2

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

I, Jeffrey T. Brown, Chief Financial Officer, certify that:

1. I have reviewed this annual report on Form 10-K 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 principles;

(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 fiscal 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: June 23, 2011

/s/ Jeffrey T. Brown
Jeffrey T. Brown
Senior Vice President and Chief Financial Officer
H&R Block, Inc.

Exhibit 32.1

**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 annual report of H&R Block, Inc. (the “Company”) on Form 10-K for the fiscal year ending April 30, 2011 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, William C. Cobb, 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/ William C. Cobb
William C. Cobb
Chief Executive Officer
H&R Block, Inc.
June 23, 2011

Exhibit 32.2

**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 annual report of H&R Block, Inc. (the “Company”) on Form 10-K for the fiscal year ending April 30, 2011 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Jeffrey T. Brown, 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/ Jeffrey T. Brown

Jeffrey T. Brown
Senior Vice President and Chief Financial Officer
H&R Block, Inc.
June 23, 2011