UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

☑ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended July 31, 2019

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 1-06089

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	**Trading Symbol(s)**	**Name of each exchange on which registered**
Common Stock, without par value	HRB	New York Stock Exchange

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

Yes ☑ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files).

Yes ☑ No ☐

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

Large accelerated filer ☑ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐ Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

Yes ☐ No ☑

The number of shares outstanding of the registrant's Common Stock, without par value, at the close of business on August 31, 2019: 200,720,054 shares.

Form 10-Q for the Period Ended July 31, 2019

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PART I

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

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

Three months ended July 31,		2019		2018
REVENUES:				
Service revenues	$	**132,159**	$	126,860
Royalty, product and other revenues		**18,203**		18,323
		150,362		145,183
OPERATING EXPENSES:				
Costs of revenues		**229,392**		221,560
Selling, general and administrative		**116,136**		105,740
Total operating expenses		**345,528**		327,300
Other income (expense), net		**9,123**		4,542
Interest expense on borrowings		**(21,071)**		(21,190)
Loss from continuing operations before income tax benefit		**(207,114)**		(198,765)
Income tax benefit		**(61,390)**		(49,968)
Net loss from continuing operations		**(145,724)**		(148,797)
Net loss from discontinued operations, net of tax benefits of $1,358 and $1,162		**(4,523)**		(3,873)
NET LOSS	**$**	**(150,247)**	$	(152,670)
BASIC AND DILUTED LOSS PER SHARE:				
Continuing operations	**$**	**(0.72)**	$	(0.72)
Discontinued operations		**(0.02)**		(0.02)
Consolidated	**$**	**(0.74)**	$	(0.74)
DIVIDENDS DECLARED PER SHARE	**$**	**0.26**	$	0.25
COMPREHENSIVE LOSS:				
Net loss	**$**	**(150,247)**	$	(152,670)
Unrealized gains on securities, net of taxes		**—**		3
Change in foreign currency translation adjustments		**(2,320)**		(1,734)
Other comprehensive loss		**(2,320)**		(1,731)
Comprehensive loss	**$**	**(152,567)**	$	(154,401)

See accompanying notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

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

As of	July 31, 2019	July 31, 2018	April 30, 2019
ASSETS			
Cash and cash equivalents	$ 607,668	$ 979,116	$ 1,572,150
Cash and cash equivalents - restricted	157,786	131,376	135,577
Receivables, less allowance for doubtful accounts of $66,652, $65,445 and $67,228	76,128	70,576	138,965
Prepaid expenses and other current assets	105,123	101,055	146,667
Total current assets	946,705	1,282,123	1,993,359
Property and equipment, at cost, less accumulated depreciation and amortization of $764,891, $768,302 and $745,761	199,679	227,003	212,092
Operating lease right of use asset	486,147	—	—
Intangible assets, net	419,391	354,831	342,493
Goodwill	821,278	507,941	519,937
Deferred tax assets and income taxes receivable	142,416	131,683	141,979
Other noncurrent assets	94,384	101,457	90,085
Total assets	$ 3,110,000	$ 2,605,038	$ 3,299,945
LIABILITIES AND STOCKHOLDERS' EQUITY			
LIABILITIES:			
Accounts payable and accrued expenses	$ 122,156	$ 145,471	$ 249,525
Accrued salaries, wages and payroll taxes	48,166	37,468	196,527
Accrued income taxes and reserves for uncertain tax positions	182,928	178,313	271,973
Operating lease liabilities	186,355	—	—
Deferred revenue and other current liabilities	193,364	202,744	204,976
Total current liabilities	732,969	563,996	923,001
Long-term debt	1,493,289	1,495,006	1,492,629
Deferred tax liabilities and reserves for uncertain tax positions	199,714	231,292	197,906
Operating lease liabilities	292,818	—	—
Deferred revenue and other noncurrent liabilities	100,406	122,735	144,882
Total liabilities	2,819,196	2,413,029	2,758,418
COMMITMENTS AND CONTINGENCIES			
STOCKHOLDERS' EQUITY:			
Common stock, no par, stated value $.01 per share, 800,000,000 shares authorized, shares issued of 236,744,360, 242,026,278 and 238,336,760	2,367	2,420	2,383
Additional paid-in capital	759,449	752,109	767,636
Accumulated other comprehensive loss	(22,736)	(16,034)	(20,416)
Retained earnings	250,740	163,567	499,386
Less treasury shares, at cost, of 35,785,391, 36,517,685 and 36,377,441	(699,016)	(710,053)	(707,462)
Total stockholders' equity	290,804	192,009	541,527
Total liabilities and stockholders' equity	$ 3,110,000	$ 2,605,038	$ 3,299,945

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited, in 000s)

Three months ended July 31,	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (150,247)	$ (152,670)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	38,605	40,432
Provision for bad debt	552	1,617
Deferred taxes	6,825	9,595
Stock-based compensation	6,674	4,359
Changes in assets and liabilities, net of acquisitions:		
Receivables	60,519	66,202
Prepaid expenses, other current and noncurrent assets	(9,917)	(12,161)
Accounts payable, accrued expenses, salaries, wages and payroll taxes	(284,643)	(203,482)
Deferred revenue, other current and noncurrent liabilities	(45,769)	(40,760)
Income tax receivables, accrued income taxes and income tax reserves	(99,929)	(89,661)
Other, net	(6,499)	966
Net cash used in operating activities	(483,829)	(375,563)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(15,181)	(12,057)
Payments made for business acquisitions, net of cash acquired	(394,411)	(1,449)
Franchise loans funded	(2,806)	(1,805)
Payments from franchisees	2,647	5,104
Other, net	50,944	3,645
Net cash used in investing activities	(358,807)	(6,562)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Dividends paid	(52,512)	(52,104)
Repurchase of common stock, including shares surrendered	(36,456)	(101,665)
Proceeds from exercise of stock options	1,206	1,355
Other, net	(12,431)	(17,494)
Net cash used in financing activities	(100,193)	(169,908)
Effects of exchange rate changes on cash	556	(1,153)
Net decrease in cash and cash equivalents, including restricted balances	(942,273)	(553,186)
Cash, cash equivalents and restricted cash, beginning of period	1,707,727	1,663,678
Cash, cash equivalents and restricted cash, end of period	$ 765,454	$ 1,110,492
SUPPLEMENTARY CASH FLOW DATA:		
Income taxes paid, net of refunds received	$ 36,138	$ 31,969
Interest paid on borrowings	15,519	15,519
Accrued additions to property and equipment	127	9,974
Accrued purchase of common stock	16,801	—

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(amounts in 000s, except per share amounts)

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock		Total Stockholders' Equity
	Shares	Amount				Shares	Amount	
Balances as of May 1, 2019	238,337	$ 2,383	$ 767,636	$ (20,416)	$ 499,386	(36,377)	$ (707,462)	$ 541,527
Net loss	—	—	—	—	(150,247)	—	—	(150,247)
Other comprehensive loss	—	—	—	(2,320)	—	—	—	(2,320)
Stock-based compensation	—	—	6,557	—	—	—	—	6,557
Stock-based awards exercised or vested	—	—	(13,789)	—	(2,786)	906	17,631	1,056
Acquisition of treasury shares	—	—	—	—	—	(314)	(9,185)	(9,185)
Repurchase and retirement of common shares	(1,593)	(16)	(955)	—	(43,101)	—	—	(44,072)
Cash dividends declared - $0.26 per share	—	—	—	—	(52,512)	—	—	(52,512)
Balances as of July 31, 2019	236,744	$ 2,367	$ 759,449	$ (22,736)	$ 250,740	(35,785)	$ (699,016)	$ 290,804

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(amounts in 000s, except per share amounts)

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Deficit)	Treasury Stock		Total Stockholders' Equity (Deficiency)
	Shares	Amount				Shares	Amount	
Balances as of May 1, 2018	246,199	$ 2,462	$ 760,250	$ (14,303)	$ 362,980	(36,945)	$ (717,678)	$ 393,711
Net loss	—	—	—	—	(152,670)	—	—	(152,670)
Cumulative effect of ASU 2016-16 (1)	—	—	—	—	100,950	—	—	100,950
Other comprehensive loss	—	—	—	(1,731)	—	—	—	(1,731)
Stock-based compensation	—	—	4,307	—	—	—	—	4,307
Stock-based awards exercised or vested	—	—	(9,945)	—	(1,029)	627	12,185	1,211
Acquisition of treasury shares	—	—	—	—	—	(200)	(4,560)	(4,560)
Repurchase and retirement of common shares	(4,173)	(42)	(2,503)	—	(94,560)	—	—	(97,105)
Cash dividends declared - $0.25 per share	—	—	—	—	(52,104)	—	—	(52,104)
Balances as of July 31, 2018	242,026	$ 2,420	$ 752,109	$ (16,034)	$ 163,567	(36,518)	$ (710,053)	$ 192,009
Net loss	—	—	—	—	(176,276)	—	—	(176,276)
Other comprehensive loss	—	—	—	(2,846)	—	—	—	(2,846)
Stock-based compensation	—	—	7,352	—	—	—	—	7,352
Stock-based awards exercised or vested	—	—	(226)	—	(202)	35	675	247
Acquisition of treasury shares	—	—	—	—	—	(16)	(431)	(431)
Cash dividends declared - $0.25 per share	—	—	—	—	(51,380)	—	—	(51,380)
Balances as of October 31, 2018	242,026	$ 2,420	$ 759,235	$ (18,880)	$ (64,291)	(36,499)	$ (709,809)	$ (31,325)
Net loss	—	—	—	—	(126,454)	—	—	(126,454)
Other comprehensive income	—	—	—	1,238	—	—	—	1,238
Stock-based compensation	—	—	6,067	—	—	—	—	6,067
Stock-based awards exercised or vested	—	—	(5)	—	(169)	41	796	622
Acquisition of treasury shares	—	—	—	—	—	(2)	(56)	(56)
Repurchase and retirement of common shares	(525)	(5)	(315)	—	(11,981)	—	—	(12,301)
Cash dividends declared - $0.25 per share	—	—	—	—	(51,382)	—	—	(51,382)
Balances as of January 31, 2019	241,501	$ 2,415	$ 764,982	$ (17,642)	$ (254,277)	(36,460)	$ (709,069)	$ (213,591)
Net income	—	—	—	—	877,909	—	—	877,909
Other comprehensive loss	—	—	—	(2,774)	—	—	—	(2,774)
Stock-based compensation	—	—	5,784	—	—	—	—	5,784
Stock-based awards exercised or vested	—	—	(1,231)	—	(150)	84	1,634	253
Acquisition of treasury shares	—	—	—	—	—	(1)	(27)	(27)
Repurchase and retirement of common shares	(3,164)	(32)	(1,899)	—	(73,501)	—	—	(75,432)
Cash dividends declared - $0.25 per share	—	—	—	—	(50,595)	—	—	(50,595)
Balances as of April 30, 2019	238,337	$ 2,383	$ 767,636	$ (20,416)	$ 499,386	(36,377)	$ (707,462)	$ 541,527

(1) ASU 2016-16 was effective on May 1, 2018 and we adopted using the modified retrospective transition method. We recognized a $101.0 million cumulative effect adjustment to increase the opening balance of retained earnings and increase deferred tax assets resulting from intra-entity transfers of intellectual property in fiscal year 2018.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION – The consolidated balance sheets as of July 31, 2019 and 2018, the consolidated statements of operations and comprehensive loss for the three months ended July 31, 2019 and 2018, the consolidated statements of cash flows for the three months ended July 31, 2019 and 2018, and the consolidated statements of stockholders' equity for the three months ended July 31, 2019 and the quarterly periods within the fiscal year ended April 30, 2019 have been prepared by the Company, without audit. In the opinion of management, all adjustments, which include only normal recurring adjustments, necessary to present fairly the financial position, results of operations, and cash flows as of July 31, 2019 and 2018 and for all periods presented, have been made.

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

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States (GAAP) have been condensed or omitted. These consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in our April 30, 2019 Annual Report to Shareholders on Form 10-K. All amounts presented herein as of April 30, 2019 or for the year then ended are derived from our Annual Report on Form 10-K.

MANAGEMENT ESTIMATES – The preparation of financial statements in conformity with 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 evaluation of contingent losses arising from our discontinued mortgage business, contingent losses associated with pending claims and litigation, reserves for uncertain tax positions, and related matters. Estimates have been prepared based on the best information available as of each balance sheet date. As such, actual results could differ materially from those estimates.

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

DISCONTINUED OPERATIONS – Our discontinued operations include the results of operations of Sand Canyon Corporation, previously known as Option One Mortgage Corporation (including its subsidiaries, collectively, SCC), which exited its mortgage business in fiscal year 2008. See notes 9 and 11 for additional information on litigation, claims, and other loss contingencies related to our discontinued operations.

WAVE ACQUISITION – On June 28, 2019, we completed our acquisition of Wave HQ Inc. (formerly known as Wave Financial Inc.) and its subsidiaries (collectively, "Wave") for $407.0 million, subject to customary post-closing adjustments for working capital. The acquisition was funded with available cash. Wave is a provider of software solutions and related services specifically designed to help small business owners manage their finances. Major revenue sources include fees earned by providing payment processing, payroll services, and bookkeeping services. We believe the acquisition of Wave enhances our position in the small business market.

Included in the transaction price is $11.4 million of amounts held in escrow, of which $8.2 million will be treated as compensation expense over the next two years as certain key employees are required to remain employees to receive payment. Amounts held in escrow are included in restricted cash in the consolidated balance sheet at July 31, 2019. Additionally, key employees are participating in a management incentive program consisting of cash performance incentives and stock-based compensation which will be earned over the next three years and is not considered part of the purchase price.

Given the proximity of the closing of the transaction to the end of the current reporting period, the valuation of identified intangible assets is still in progress and the allocation of the purchase price between intangible assets and goodwill is incomplete. As of July 31, 2019, the Company has recorded a provisional estimate of identified intangible assets and goodwill. The Company expects to finalize the valuation and useful life determination for the acquired intangible assets and the related income tax impacts during the fiscal year, and therefore, the purchase price allocation is subject to change.

The assets acquired, net of liabilities assumed on the acquisition date, and the provisional estimates of identified intangible assets and goodwill, are as follows:

		(in 000s)
Assets acquired and liabilities assumed, net	$	**4,495**
Cash held in escrow		**3,212**
Identifiable intangible assets		**87,760**
Goodwill		**303,359**
Total identifiable assets and goodwill	$	**398,826**

Revenues of $3.6 million and pretax losses of $5.3 million were recognized by Wave from the period of June 28, 2019 through July 31, 2019, which are included in our consolidated statement of operations for the three-month period ended July 31, 2019. Had we acquired Wave as of May 1, 2018, we would have reported consolidated revenues of $156.9 million and $152.0 million for the three months ended July 31, 2019 and 2018, respectively, and consolidated pretax losses from continuing operations of $218.1 million and $211.2 million for the three months ended July 31, 2019 and 2018, respectively. Pro-forma adjustments primarily include provisional estimates of amortization of intangible assets and certain compensation expenses.

NEW ACCOUNTING PRONOUNCEMENTS –

Leases. In February 2016, the FASB issued Accounting Standards Update No. 2016-02, "Leases" (ASU 2016-02), which requires the recognition of lease assets and lease liabilities on the balance sheet by lessees for leases previously classified as operating leases. We adopted this guidance and related amendments as of May 1, 2019 using the alternative transition method, which allows companies the option of using the effective date of the new standard as the initial application date (at the beginning of the period in which it adopted, rather than at the beginning of the earliest comparative period).

At July 31, 2019, the Company has recognized $486.1 million and $479.2 million of operating lease right-of-use (ROU) assets and operating lease liabilities, respectively. As part of adopting the standard, pre-existing liabilities for deferred rent and various lease incentives were reclassified as a component of the lease assets. We elected the package of practical expedients which allows us to not reassess historical lease classification, initial direct costs or contracts related to leases. For leases with an initial term of twelve months or less we have elected to only recognize retail office leases on our balance sheet. We elected the practical expedient to account for lease and non-lease components (such as common area maintenance, utilities, insurance and taxes) as a single lease component for all classes of underlying assets. We also elected the practical expedient to not reassess whether land easement contracts meet the definition of a lease. We did not elect the practical expedient of hindsight when determining the lease term of existing contracts at the effective date.

The adoption of the new standard did not materially affect our consolidated statement of operations or cash flows. See note 10, Leases, for additional information.

NOTE 2: REVENUE RECOGNITION

The majority of our revenues are from our U.S. Tax Services business. The following table disaggregates our U.S. Tax Services revenues by major service line, with revenues from our international Tax Services businesses and from Wave included as separate lines:

Three months ended July 31,		2019		2018
				(in 000s)
Revenues:				
U.S. assisted tax preparation	$	**32,992**	$	31,104
U.S. royalties		**6,859**		7,571
U.S. DIY tax preparation		**3,410**		2,781
International		**40,581**		39,179
Refund Transfers		**1,509**		1,424
Emerald Card®		**13,855**		14,246
Peace of Mind® Extended Service Plan		**32,837**		36,577
Tax Identity Shield®		**4,522**		4,741
Interest and fee income on Emerald Advance™		**554**		447
Wave		**3,625**		—
Other		**9,618**		7,113
Total revenues	**$**	**150,362**	$	145,183

Wave revenues primarily consist of fees received to process payment transactions and are generally calculated as a percentage of the transaction amounts processed. Revenues are recognized upon authorization of the transaction.

Changes in the balances of deferred revenue and wages for Peace of Mind® Extended Service Plan (POM) are as follows:

POM	Deferred Revenue				Deferred Wages			(in 000s)
Three months ended July 31,		**2019**		2018		**2019**		2018
Balance, beginning of the period	**$**	**212,511**	$	218,274	**$**	**27,306**	$	32,683
Amounts deferred		**1,723**		1,392		**23**		62
Amounts recognized on previous deferrals		**(38,212)**		(40,857)		**(5,324)**		(5,917)
Balance, end of the period	**$**	**176,022**	$	178,809	**$**	**22,005**	$	26,828

As of July 31, 2019, deferred revenue related to POM was $176.0 million. We expect that $110.7 million will be recognized over the next twelve months, while the remaining balance will be recognized over the following sixty months.

As of July 31, 2019 and 2018, Tax Identity Shield® (TIS) deferred revenue was $25.4 million and $31.9 million, respectively. Deferred revenue related to TIS was $29.7 million and $36.4 million at April 30, 2019 and 2018, respectively. All deferred revenue related to TIS will be recognized within the next nine months.

NOTE 3: LOSS PER SHARE AND STOCKHOLDERS' EQUITY

LOSS PER SHARE – Basic and diluted loss 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 or loss from continuing operations attributable to common shareholders by the weighted average shares outstanding during each period. The dilutive effect of potential common shares is included in diluted earnings per share except in those periods with a loss from continuing operations. Diluted earnings per share excludes the impact of shares of common stock issuable upon the lapse of certain restrictions or the exercise of options to purchase 3.7 million shares for the three months ended July 31, 2019, and 3.4 million shares for the three months ended July 31, 2018, as the effect would be antidilutive due to the net loss from continuing operations during those periods.

The computations of basic and diluted loss per share from continuing operations are as follows:

(in 000s, except per share amounts)

Three months ended July 31,	2019	2018
Net loss from continuing operations attributable to shareholders	$ (145,724)	$ (148,797)
Amounts allocated to participating securities	(149)	(142)
Net loss from continuing operations attributable to common shareholders	$ (145,873)	$ (148,939)
Basic weighted average common shares	202,037	207,673
Potential dilutive shares	—	—
Dilutive weighted average common shares	202,037	207,673
Loss per share from continuing operations attributable to common shareholders:		
Basic	$ (0.72)	$ (0.72)
Diluted	(0.72)	(0.72)

The weighted average shares outstanding for the three months ended July 31, 2019 decreased to 202.0 million from 207.7 million for the three months ended July 31, 2018. The decrease is due to share repurchases completed in the current quarter and in the prior year.

STOCK-BASED COMPENSATION – During the three months ended July 31, 2019, we also acquired 0.3 million shares of our common stock at an aggregate cost of $9.2 million, which represent shares swapped or surrendered to us in connection with the vesting or exercise of stock-based awards. During the three months ended July 31, 2018, we acquired 0.2 million shares at an aggregate cost of $4.6 million for similar purposes.

During the three months ended July 31, 2019 and 2018, we issued 0.9 million and 0.6 million shares of common stock, respectively, due to the vesting or exercise of stock-based awards.

During the three months ended July 31, 2019, we granted equity awards equivalent to 1.3 million shares under our stock-based compensation plans, consisting primarily of nonvested units. Stock-based compensation expense of our continuing operations totaled $6.7 million and $4.4 million for the three months ended July 31, 2019 and 2018, respectively. As of July 31, 2019, unrecognized compensation cost for stock options totaled $0.5 million, and for nonvested shares and units totaled $55.9 million.

NOTE 4: RECEIVABLES

Receivables, net of their related allowance, consist of the following:

(in 000s)

As of	July 31, 2019		July 31, 2018		April 30, 2019	
	Short-term	Long-term	Short-term	Long-term	Short-term	Long-term
Loans to franchisees	$ 12,301	$ 45,542	$ 28,250	$ 35,776	$ 22,427	$ 35,325
Receivables for U.S. assisted and DIY tax preparation and related fees	19,686	3,716	9,084	5,503	34,284	3,716
H&R Block Instant Refund™ receivables	880	1,780	1,306	2,031	37,319	1,701
H&R Block Emerald Advance™ lines of credit	8,136	10,249	7,694	11,800	8,546	12,418
Software receivables from retailers	1,395	—	3,372	—	9,354	—
Royalties and other receivables from franchisees	7,834	99	4,257	—	11,888	97
Wave payment processing receivables	3,041	—	—	—	—	—
Other	22,855	2,251	16,613	3,665	15,147	2,382
Total	$ 76,128	$ 63,637	$ 70,576	$ 58,775	$ 138,965	$ 55,639

Balances presented above as short-term are included in receivables, while the long-term portions are included in other noncurrent assets in the consolidated balance sheets.

LOANS TO FRANCHISEES – Franchisee loan balances consist of term loans made primarily to finance the purchase of franchises and revolving lines of credit primarily for the purpose of funding off-season working capital needs. As of July 31, 2019 and 2018, loans with a principal balance of $2.0 million and $1.2 million, respectively, were more than 90 days past due. We had no loans to franchisees on non-accrual status.

H&R BLOCK INSTANT REFUNDTM PROGRAM – H&R Block Instant RefundTM (formerly Instant Cash Back®) amounts are generally received from the Canada Revenue Agency (CRA) within 60 days of filing the client's return, with the remaining balance collectible from the client.

We review the credit quality of our Instant Refund receivables based on pools, which are segregated by the year of origination, with older years being deemed more unlikely to be repaid. Current balances and amounts on non-accrual status and classified as impaired, or more than 60 days past due, by year of origination, as of July 31, 2019 are as follows:

(in 000s)

Year of Origination	Current Balance	Non-Accrual
2019	**$ 4,431**	**$ 2,795**
2018 and prior	**455**	**455**
	4,886	**$ 3,250**
Allowance	**(2,226)**	
Net balance	**$ 2,660**	

H&R BLOCK EMERALD ADVANCETM LINES OF CREDIT – We review the credit quality of our purchased participation interests in Emerald AdvanceTM (EA) receivables based on pools, which are segregated by the year of origination, with older years being deemed more unlikely to be repaid. Balances and amounts on non-accrual status and classified as impaired, or more than 60 days past due, as of July 31, 2019, by year of origination, are as follows:

(in 000s)

Year of origination:	Balance	Non-Accrual
2019	**$ 25,002**	**$ 25,002**
2018 and prior	**6,941**	**6,941**
Revolving loans	**13,977**	**11,888**
	45,920	**$ 43,831**
Allowance	**(27,535)**	
Net balance	**$ 18,385**	

ALLOWANCE FOR DOUBTFUL ACCOUNTS – Activity in the allowance for doubtful accounts for our EA and all other short-term and long-term receivables for the three months ended July 31, 2019 and 2018 is as follows:

(in 000s)

	EAs	All Other	Total
Balances as of April 30, 2019	$ 27,535	$ 53,938	$ 81,473
Provision	—	**552**	**552**
Charge-offs, recoveries and other	—	**(322)**	**(322)**
Balances as of July 31, 2019	**$ 27,535**	**$ 54,168**	**$ 81,703**
Balances as of April 30, 2018	$ 26,622	$ 55,191	$ 81,813
Provision	—	1,617	1,617
Charge-offs, recoveries and other	—	(4,630)	(4,630)
Balances as of July 31, 2018	$ 26,622	$ 52,178	$ 78,800

NOTE 5: GOODWILL AND INTANGIBLE ASSETS

Changes in the carrying amount of goodwill for the three months ended July 31, 2019 and 2018 are as follows:

(in 000s)

	Goodwill	Accumulated Impairment Losses	Net
Balances as of April 30, 2019	$ 552,234	$ (32,297)	$ 519,937
Acquisition of Wave [1]	**303,359**	**$ —**	**303,359**
Other Acquisitions	**1,083**	**—**	**1,083**
Disposals and foreign currency changes, net	**(3,101)**	**—**	**(3,101)**
Impairments	**—**	**—**	**—**
Balances as of July 31, 2019	**$ 853,575**	**$ (32,297)**	**$ 821,278**
Balances as of April 30, 2018	$ 540,168	$ (32,297)	$ 507,871
Acquisitions	651	—	651
Disposals and foreign currency changes, net	(581)	—	(581)
Impairments	—	—	—
Balances as of July 31, 2018	$ 540,238	$ (32,297)	$ 507,941

(1) The fair value of the acquired goodwill related to our acquisition of Wave is provisional pending the final purchase price allocation.

We test goodwill for impairment annually in our fourth quarter, 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.

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Components of intangible assets are as follows:

(in 000s)

	Gross Carrying Amount	Accumulated Amortization	Net
As of July 31, 2019: (1)			
Reacquired franchise rights	**$ 350,679**	**$ (141,954)**	**$ 208,725**
Customer relationships	**300,156**	**(203,283)**	**96,873**
Internally-developed software	**144,768**	**(111,892)**	**32,876**
Noncompete agreements	**40,358**	**(31,980)**	**8,378**
Franchise agreements	**19,201**	**(13,654)**	**5,547**
Purchased technology	**104,700**	**(45,166)**	**59,534**
Trade name	**5,800**	**(48)**	**5,752**
Acquired assets pending final allocation (2)	**1,706**	**—**	**1,706**
	$ 967,368	**$ (547,977)**	**$ 419,391**
As of July 31, 2018:			
Reacquired franchise rights	$ 339,747	$ (119,386)	$ 220,361
Customer relationships	256,858	(171,542)	85,316
Internally-developed software	137,914	(114,622)	23,292
Noncompete agreements	32,888	(30,144)	2,744
Franchise agreements	19,201	(12,374)	6,827
Purchased technology	54,700	(39,210)	15,490
Acquired assets pending final allocation (2)	801	—	801
	$ 842,109	$ (487,278)	$ 354,831
As of April 30, 2019:			
Reacquired franchise rights	$ 350,410	$ (136,345)	$ 214,065
Customer relationships	274,838	(195,174)	79,664
Internally-developed software	139,239	(109,885)	29,354
Noncompete agreements	33,376	(31,446)	1,930
Franchise agreements	19,201	(13,334)	5,867
Purchased technology	54,700	(43,518)	11,182
Acquired assets pending final allocation (2)	431	—	431
	$ 872,195	$ (529,702)	$ 342,493

(1) The fair value of the acquired intangible assets related to our acquisition of Wave is provisional pending the final purchase price allocation.
(2) Represents franchisee and competitor business acquisitions for which final purchase price allocations have not yet been determined.

We made payments to acquire franchisee and competitor businesses totaling $1.4 million during the three months ended July 31, 2019 and 2018. These payments do not include the payments made to acquire Wave as discussed in note 1.

Amortization of intangible assets for the three months ended July 31, 2019 and 2018 was $18.2 million and $18.1 million, respectively. Estimated amortization of intangible assets, excluding provisional amounts related to the Wave acquisition, for fiscal years 2020, 2021, 2022, 2023 and 2024 is $62.1 million, $45.4 million, $32.1 million, $18.5 million and $11.8 million, respectively.

NOTE 6: LONG-TERM DEBT

The components of long-term debt are as follows:

(in 000s)

As of	July 31, 2019	July 31, 2018	April 30, 2019
Senior Notes, 4.125%, due October 2020	**$ 650,000**	$ 650,000	$ 650,000
Senior Notes, 5.500%, due November 2022	**500,000**	500,000	500,000
Senior Notes, 5.250%, due October 2025	**350,000**	350,000	350,000
Capital lease obligation	**—**	5,376	—
Debt issuance costs and discounts	**(6,711)**	(9,332)	(7,371)
	1,493,289	1,496,044	1,492,629
Less: Current portion	**—**	(1,038)	—
	$ 1,493,289	$ 1,495,006	$ 1,492,629

UNSECURED COMMITTED LINE OF CREDIT – Our unsecured committed line of credit (CLOC) provides for an unsecured senior revolving credit facility in the aggregate principal amount of $2.0 billion, which includes a $200.0 million sublimit for swingline loans and a $50.0 million sublimit for standby letters of credit. We may request increases in the aggregate principal amount of the revolving credit facility of up to $500.0 million, subject to obtaining commitments from lenders and meeting certain other conditions. The CLOC will mature on September 21, 2023, unless extended pursuant to the terms of the CLOC, at which time all outstanding amounts thereunder will be due and payable. Our CLOC includes an annual facility fee, which will vary depending on our then current credit ratings.

The CLOC is subject to various conditions, triggers, events or occurrences that could result in earlier termination and contains customary representations, warranties, covenants and events of default, including, without limitation: (1) a covenant requiring the Company to maintain a debt-to-EBITDA ratio calculated on a consolidated basis of no greater than (a) 3.50 to 1.00 as of the last day of each fiscal quarter ending on April 30, July 31, and October 31 of each year and (b) 4.50 to 1.00 as of the last day of each fiscal quarter ending on January 31 of each year; (2) a covenant requiring us to maintain an interest coverage ratio (EBITDA-to-interest expense) calculated on a consolidated basis of not less than 2.50 to 1.00 as of the last date of any fiscal quarter; and (3) covenants restricting our ability to incur certain additional debt, incur liens, merge or consolidate with other companies, sell or dispose of assets (including equity interests), liquidate or dissolve, engage in certain transactions with affiliates or enter into certain restrictive agreements. The CLOC includes provisions for an equity cure which could potentially allow us to independently cure certain defaults. Proceeds under the CLOC may be used for working capital needs or for other general corporate purposes. We were in compliance with these requirements as of July 31, 2019.

We had no outstanding balance under the CLOC as of July 31, 2019, and amounts available to borrow were limited by the debt-to-EBITDA covenant to approximately $1.1 billion as of July 31, 2019.

The estimated fair value of our long-term debt as of July 31, 2019 and 2018 and April 30, 2019 totaled $1.6 billion, $1.5 billion and $1.6 billion, respectively.

NOTE 7: INCOME TAXES

We file a consolidated federal income tax return in the U.S. with the IRS and file tax returns in various state, local, and foreign jurisdictions. Tax returns are typically examined and either settled upon completion of the examination or through the appeals process. Our U.S. federal income tax returns for 2015 and 2017 remain open for examination. Our U.S. federal income tax returns for 2016 along with 2014 and all prior periods are closed. With respect to state and local jurisdictions and countries outside of the U.S., we are typically subject to examination for three to six years after the income tax returns have been filed. Although the outcome of tax audits is always uncertain, we believe that adequate amounts of tax, interest, and penalties have been provided for in the accompanying consolidated financial statements for any adjustments that might be incurred due to federal, state, local or foreign audits.

We had gross unrecognized tax benefits of $179.2 million, $204.5 million and $185.1 million as of July 31, 2019 and 2018 and April 30, 2019, respectively. The gross unrecognized tax benefits decreased $5.9 million and increased $18.4 million during the three months ended July 31, 2019 and 2018, respectively. The decrease in unrecognized tax benefits during the three months ending July 31, 2019 is related to favorable audit settlements as well as state statute of limitation periods ending in the current quarter. We believe it is reasonably possible that the balance of unrecognized tax benefits could decrease by approximately $24.3 million within the next twelve months. The anticipated decrease is due to the expiration of statutes of limitations and anticipated closure of various state tax matters currently under examination. For such matters where a change in the balance of unrecognized tax benefits is not yet deemed reasonably possible, no estimate has been included. The portion of unrecognized benefits expected to be cash settled within the next twelve months amounts to $6.5 million and is included in accrued income taxes on our consolidated balance sheet.

Consistent with prior years, our pretax loss for the three months ended July 31, 2019 is expected to be offset by income in the fourth quarter due to the established pattern of seasonality in our primary business operations. As such, management has determined that it is more-likely-than-not that realization of tax benefits recorded in our financial statements will occur within our fiscal year. The amount of tax benefit recorded for the three months ended July 31, 2019 reflects management's estimate of the annual effective tax rate applied to the year-to-date loss from continuing operations adjusted for the tax impact of items discrete to the quarter.

A discrete income tax benefit of $8.3 million was recorded in the three months ended July 31, 2019 compared to a discrete tax benefit of $0.5 million in the same period of the prior year. The discrete tax benefit recorded in the current period primarily resulted from audit settlements in various state jurisdictions and valuation allowance changes related to utilization of foreign losses.

Our effective tax rate from continuing operations, including the effects of discrete income tax items, was 29.6% and 25.1% for the three months ended July 31, 2019 and 2018, respectively. Discrete items increased the effective tax rate for the three months ended July 31, 2019 and 2018 by 4.0% and 0.2%, respectively. Due to the loss in both periods, a discrete tax benefit in either period increases the tax rate while an item of discrete tax expense decreases the tax rate. The impact of discrete tax items combined with the seasonal nature of our business can cause the effective tax rate through our first quarter to be significantly different than the rate for our full fiscal year.

NOTE 8: OTHER INCOME AND OTHER EXPENSES

The following table shows the components of other income (expense), net:

(in 000s)

Three months ended July 31,		**2019**		2018
Interest income	**$**	**8,026**	$	4,497
Foreign currency gains (losses), net		**9**		(3)
Other, net		**1,088**		48
	$	**9,123**	$	4,542

NOTE 9: COMMITMENTS AND CONTINGENCIES

Assisted tax returns, as well as services provided under Tax Pro Go℠ and Tax Pro Review℠, are covered by our 100% accuracy guarantee, whereby we will reimburse a client for penalties and interest attributable to an H&R Block error on a return. DIY tax returns are covered by our 100% accuracy guarantee, whereby we will reimburse a client up to a maximum of $10,000 if our software makes an arithmetic error that results in payment of penalties and/or interest to the IRS that a client would otherwise not have been required to pay. Our liability related to estimated losses under the 100% accuracy guarantee was $8.8 million, $8.6 million and $9.9 million as of July 31, 2019 and 2018 and April 30, 2019, respectively. The short-term and long-term portions of this liability are included in deferred revenue and other liabilities in the consolidated balance sheets.

Our liability related to acquisitions for estimated contingent consideration was $9.6 million, $10.6 million and $11.1 million as of July 31, 2019 and 2018 and April 30, 2019, respectively, with amounts recorded in deferred revenue and other liabilities. Estimates of contingent payments are typically based on expected financial performance of the acquired business and economic conditions at the time of acquisition. Should actual results differ from our assumptions, future payments made will differ from the above estimate and any differences will be recorded in results from continuing operations.

We have contractual commitments to fund certain franchises with approved revolving lines of credit. Our total obligation under these lines of credit was $6.0 million at July 31, 2019, and net of amounts drawn and outstanding, our remaining commitment to fund totaled $4.2 million.

LOSS CONTINGENCIES PERTAINING TO DISCONTINUED MORTGAGE OPERATIONS – SCC ceased originating mortgage loans in December 2007 and, in April 2008, sold its servicing assets and discontinued its remaining operations. Mortgage loans originated by SCC were sold either as whole loans to single third-party buyers, who generally securitized such loans, or in the form of residential mortgage-backed securities (RMBSs). In connection with the sale of loans and/or RMBSs, SCC made certain representations and warranties. Claims under these representations and warranties together with any settlement arrangements related to these losses are collectively referred to as "representation and warranty claims."

SCC accrues a liability for losses related to representation and warranty claims when those losses are believed to be both probable and reasonably estimable. SCC's loss estimate is based on the best information currently available, management judgment, developments in relevant case law, and the terms of bulk settlements. In periods when a liability is accrued for such loss contingencies, the liability is included in deferred revenue and other current liabilities on the consolidated balance sheets. SCC had no liability accrued for these losses as of July 31, 2019 and 2018 or April 30, 2019.

See note 11, which addresses contingent losses that may be incurred with respect to various indemnification or contribution claims by underwriters, depositors, and securitization trustees in securitization transactions in which SCC participated.

NOTE 10: LEASES

As discussed in note 1, we adopted ASU 2016-02 on May 1, 2019. The majority of our lease portfolio consists of retail office space in the U.S., Canada, and Australia. The contract terms for these retail offices generally are from May 1 to April 30. We record operating lease right of use (ROU) assets and operating lease liabilities based on the discounted future minimum lease payments over the term of the lease. We generally do not include renewal options in the term of the lease. As the rates implicit in our leases are not readily determinable, we used our incremental borrowing rate based on the lease term and geographic location in calculating the discounted future minimum lease payments.

We recognize lease expenses for our operating leases on a straight-line basis. For lease payments that are subject to adjustments based on indexes or rates, the most current index or rate adjustments were included in the measurement of our ROU assets and lease liabilities at adoption. Variable lease costs, including non-lease components (such as common area maintenance, utilities, insurance and taxes) and certain index-based changes in lease payments, are expensed as incurred.

For the three months ended July 31, 2019, our lease costs consist of the following:

		(in 000s)
Operating lease costs	$	**60,171**
Variable lease costs		**14,761**
Subrental income		**(349)**
Total lease costs	$	**74,583**

Other information related to operating leases for the three months ended July 31, 2019 is as follows:

		(dollars in 000s)
Cash paid for operating lease costs	$	58,881
Operating lease right of use assets obtained in exchange for operating lease liabilities [1]	$	157,216
Weighted-average remaining operating lease term (years)		3
Weighted-average operating lease discount rate		3.5%

[1] This balance excludes the initial impacts of the adoption of ASU 2016-02.

Aggregate operating lease maturities as of July 31, 2019 are as follows:

		(in 000s)
Remainder of 2020	$	158,893
2021		164,760
2022		104,983
2023		50,061
2024		20,145
2025 and thereafter		8,701
Total future undiscounted operating lease payments		507,543
Less imputed interest		(28,370)
Total operating lease liabilities	$	479,173

As disclosed in our Annual Report on Form 10-K for the fiscal year ended April 30, 2019, our future undiscounted operating lease commitments under the previous accounting standard was $573.3 million.

NOTE 11: LITIGATION AND OTHER RELATED CONTINGENCIES

We are a defendant in numerous litigation matters, arising both in the ordinary course of business and otherwise, including as described below. The matters described below are not all of the lawsuits to which we are subject. In some of the matters, very large or indeterminate amounts, including punitive damages, are sought. U.S. jurisdictions permit considerable variation in the assertion of monetary damages or other relief. Jurisdictions may permit claimants not to specify the monetary damages sought or may permit claimants to state only that the amount sought is sufficient to invoke the jurisdiction of the court. In addition, jurisdictions may permit plaintiffs to allege monetary damages in amounts well exceeding reasonably possible verdicts in the jurisdiction for similar matters. We believe that the monetary relief which may be specified in a lawsuit or a claim bears little relevance to its merits or disposition value due to this variability in pleadings and our experience in litigating or resolving through settlement of numerous claims over an extended period of time.

The outcome of a litigation matter and the amount or range of potential loss at particular points in time may be difficult to ascertain. Among other things, uncertainties can include how fact finders will evaluate documentary evidence and the credibility and effectiveness of witness testimony, and how trial and appellate courts will apply the law. Disposition valuations are also subject to the uncertainty of how opposing parties and their counsel will themselves view the relevant evidence and applicable law.

In addition to litigation matters, we are also subject to claims and other loss contingencies arising out of our business activities, including as described below.

We accrue liabilities for litigation, claims, including indemnification and contribution claims, and other related loss contingencies and any related settlements (each referred to, individually, as a "matter" and, collectively, as "matters") when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. If a range of loss is estimated, and some amount within that range appears to be a better estimate than any other amount within that range, then that amount is accrued. If no amount within the range can be identified as a better estimate than any other amount, we accrue the minimum amount in the range.

For such matters where a loss is believed to be reasonably possible, but not probable, or the loss cannot be reasonably estimated, no accrual has been made. It is possible that such matters could require us to pay damages or make other expenditures or accrue liabilities in amounts that could not be reasonably estimated as of July 31, 2019. While the potential future liabilities could be material in the particular quarterly or annual periods in which they are recorded, based on information currently known, we do not believe any such liabilities are likely to have a material adverse effect on our business and our consolidated financial position, results of operations, and cash flows. As of July 31, 2019 and 2018 and April 30, 2019, our total accrued liabilities were $1.6 million, $2.8 million and $1.9 million, respectively.

Our estimate of the aggregate range of reasonably possible losses includes (1) matters where a liability has been accrued and there is a reasonably possible loss in excess of the amount accrued for that liability, and (2) matters where a liability has not been accrued but we believe a loss is reasonably possible. This aggregate range only represents those losses as to which we are currently able to estimate a reasonably possible loss or range of loss. It does not represent our maximum loss exposure.

Matters for which we are not currently able to estimate the reasonably possible loss or range of loss are not included in this range. We are often unable to estimate the possible loss or range of loss until developments in such matters have provided sufficient information to support an assessment of the reasonably possible loss or range of loss, such as precise information about the amount of damages or other remedies being asserted, the defenses to the claims being asserted, discovery from other parties and investigation of factual allegations, rulings by courts on motions or appeals, analysis by experts, or the status or terms of any settlement negotiations.

The estimated range of reasonably possible loss is based upon currently available information and is subject to significant judgment and a variety of assumptions, as well as known and unknown uncertainties. The matters underlying the estimated range will change from time to time, and actual results may vary significantly from the current estimate. As of July 31, 2019, we believe the estimate of the aggregate range of reasonably possible losses in excess of amounts accrued, where the range of loss can be estimated, is not material.

On a quarterly and annual basis, we review relevant information with respect to litigation and other loss contingencies and update our accruals, disclosures, and estimates of reasonably possible loss or range of loss based on such reviews. Costs incurred with defending matters are expensed as incurred. Any receivable for insurance recoveries is recorded separately from the corresponding liability, and only if recovery is determined to be probable and reasonably estimable.

We believe we have meritorious defenses to the claims asserted in the various matters described in this note, and we intend to defend them vigorously, but there can be no assurances as to their outcomes. In the event of unfavorable outcomes, it could require modifications to our operations; in addition, the amounts that may be required to be paid to discharge or settle the matters could be substantial and could have a material adverse impact on our business and our consolidated financial position, results of operations, and cash flows.

LITIGATION, CLAIMS OR OTHER LOSS CONTINGENCIES PERTAINING TO CONTINUING OPERATIONS –

Free File Litigation. On May 6, 2019, the Los Angeles City Attorney filed a lawsuit on behalf of the People of the State of California in the Superior Court of California, County of Los Angeles (Case No. 19STCV15742) styled *The People of the State of California v. H&R Block, Inc., et al*. The complaint alleges that H&R Block, Inc. and HRB Digital LLC engaged in unfair, fraudulent and deceptive business practices and acts in connection with the IRS Free File Program in violation of the California Unfair Competition Law, Business and Professions Code §§17200 *et seq.* The complaint seeks injunctive relief, restitution of monies paid to H&R Block by persons in the State of California who were eligible to file under the IRS Free File Program for the time period starting 4 years prior to the date of the filing of the complaint, pre-judgment interest, civil penalties and costs. The case was removed to the United States District Court for the Central District of California on June 6, 2019 (Case No. 2:19-cv-04933-ODW-AS). A motion to remand is pending. We have not concluded that a loss related to this matter is probable, nor have we accrued a liability related to this matter.

On May 17, 2019, a putative class action complaint was filed against H&R Block, Inc., HRB Tax Group, Inc. and HRB Digital LLC in the Superior Court of the State of California, County of San Francisco (Case No. CGC-19576093) styled *Olosoni and Snarr v. H&R Block, Inc., et al*. The case was removed to the United States District Court for the Northern District of California on June 21, 2019 (Case No. 3:19-cv-03610-SK). The plaintiffs filed a first amended complaint on August 9, 2019, dropping H&R Block, Inc. from the case. In their amended complaint, the plaintiffs seek to represent classes of all persons, between May 17, 2015 and the present, who (1) paid to file one or more federal tax returns through H&R Block's internet-based filing system, (2) were eligible to file those tax returns for free through the H&R

Block Free File offer of the IRS Free File Program, and (3) resided in and were citizens of California at the time of the payments. The plaintiffs generally allege unlawful, unfair, fraudulent and deceptive business practices and acts in connection with the IRS Free File Program in violation of the California Consumers Legal Remedies Act, California Civil Code §§1750, *et seq*., False Advertising, Business and Professions Code §§17500, *et seq*., and Unfair Competition Law, Business and Professions Code §§17200 *et seq*. The plaintiffs seek declaratory and injunctive relief, restitution, compensatory damages, punitive damages, interest, attorneys' fees and costs. We filed a motion to stay the proceedings based on the primary jurisdiction doctrine and a motion to compel arbitration, both of which remain pending. We have not concluded that a loss related to this matter is probable, nor have we accrued a liability related to this matter.

We have also received and are responding to certain governmental inquiries relating to the IRS Free File Program.

LITIGATION, CLAIMS, INCLUDING INDEMNIFICATION AND CONTRIBUTION CLAIMS, OR OTHER LOSS CONTINGENCIES PERTAINING TO DISCONTINUED MORTGAGE OPERATIONS – Although SCC ceased its mortgage loan origination activities in December 2007 and sold its loan servicing business in April 2008, SCC or the Company has been, remains, and may in the future be, subject to litigation, claims, including indemnification and contribution claims, and other loss contingencies pertaining to SCC's mortgage business activities that occurred prior to such termination and sale. These lawsuits, claims, and other loss contingencies include actions by regulators, third parties seeking indemnification or contribution, including depositors, underwriters, and securitization trustees, individual plaintiffs, and cases in which plaintiffs seek to represent a class of others alleged to be similarly situated. Among other things, these lawsuits, claims, and contingencies allege or may allege discriminatory or unfair and deceptive loan origination and servicing (including debt collection, foreclosure, and eviction) practices, other common law torts, rights to indemnification or contribution, breach of contract, violations of securities laws, and violations of a variety of federal statutes, including the Truth in Lending Act (TILA), Equal Credit Opportunity Act, Fair Housing Act, Real Estate Settlement Procedures Act (RESPA), Home Ownership & Equity Protection Act (HOEPA), as well as similar state statutes. It is difficult to predict either the likelihood of new matters being initiated or the outcome of existing matters. In many of these matters it is not possible to estimate a reasonably possible loss or range of loss due to, among other things, the inherent uncertainties involved in these matters, some of which are beyond the Company's control, and the indeterminate damages sought in some of these matters.

Mortgage loans originated by SCC were sold either as whole loans to single third-party buyers, who generally securitized such loans, or in the form of RMBSs. In connection with the sale of loans and/or RMBSs, SCC made certain representations and warranties. The statute of limitations for a contractual claim to enforce a representation and warranty obligation is generally six years or such shorter limitations period that may apply under the law of a state where the economic injury occurred. On June 11, 2015, the New York Court of Appeals, New York's highest court, held in *ACE Securities Corp. v. DB Structured Products, Inc.*, that the six-year statute of limitations under New York law starts to run at the time the representations and warranties are made, not the date when the repurchase demand was denied. This decision applies to claims and lawsuits brought against SCC where New York law governs. New York law governs many, though not all, of the RMBS transactions into which SCC entered. However, this decision would not affect representation and warranty claims and lawsuits SCC has received or may receive, for example, where the statute of limitations has been tolled by agreement or a suit was timely filed.

In response to the statute of limitations rulings in the *ACE* case and similar rulings in other state and federal courts, parties seeking to pursue representation and warranty claims or lawsuits have sought, and may in the future seek, to distinguish certain aspects of the *ACE* decision, pursue alternate legal theories of recovery, or assert claims against other contractual parties such as securitization trustees. For example, a 2016 ruling by a New York intermediate appellate court, followed by the federal district court in the second Homeward case described below, allowed a counterparty to pursue litigation on additional loans in the same trust even though only some of the loans complied with the condition precedent of timely pre-suit notice and opportunity to cure or repurchase. Additionally, plaintiffs in litigation to which SCC is not party have alleged breaches of an independent contractual duty to provide notice of material breaches of representations and warranties and pursued separate claims to which, they argue, the statute of limitations ruling in the *ACE* case does not apply. The impact on SCC from alternative legal theories seeking to avoid or distinguish the *ACE* decision, or judicial limitations on the *ACE* decision, is unclear. SCC has not accrued liabilities for claims not subject to a tolling arrangement or not relating back to timely filed litigation.

On May 31, 2012, a lawsuit was filed by Homeward Residential, Inc. (Homeward) in the Supreme Court of the State of New York, County of New York, against SCC styled *Homeward Residential, Inc. v. Sand Canyon Corporation* (Index No. 651885/2012). SCC removed the case to the United States District Court for the Southern District of New York on June 28, 2012 (Case No. 12-cv-5067). The plaintiff, in its capacity as the master servicer for Option One Mortgage Loan Trust 2006-2 and for the benefit of the trustee and the certificate holders of such trust, asserts claims for breach of contract, anticipatory breach, indemnity, and declaratory judgment in connection with alleged losses incurred as a result of the breach of representations and warranties relating to SCC and to loans sold to the trust. The trust was originally collateralized with approximately 7,500 loans. The plaintiff seeks specific performance of alleged repurchase obligations or damages to compensate the trust and its certificate holders for alleged actual and anticipated losses, as well as a repurchase of all loans due to alleged misrepresentations by SCC as to itself and as to the loans' compliance with its underwriting standards and the value of underlying real estate. In response to a motion filed by SCC, the court dismissed the plaintiff's claims for breach of the duty to cure or repurchase, anticipatory breach, indemnity, and declaratory judgment. The case is proceeding on the remaining claims. Representatives of a holder of certificates in the trust filed a motion to intervene to add H&R Block, Inc. to the lawsuit and assert claims against H&R Block, Inc. based on alter ego, corporate veil-piercing, and agency law. On February 12, 2018, the court denied the motion to intervene. Discovery in the case is currently scheduled to close on September 30, 2019, with motions for summary judgment due on December 6, 2019. The parties have selected a mediator and are in the process of selecting a mediation date. A trial date has not yet been set. We have not concluded that a loss related to this matter is probable, nor have we accrued a liability related to this matter.

On September 28, 2012, a second lawsuit was filed by Homeward in the United States District Court for the Southern District of New York against SCC styled *Homeward Residential, Inc. v. Sand Canyon Corporation* (Case No. 12-cv-7319). The plaintiff, in its capacity as the master servicer for Option One Mortgage Loan Trust 2006-3 and for the benefit of the trustee and the certificate holders of such trust, asserts claims for breach of contract and indemnity in connection with losses allegedly incurred as a result of the breach of representations and warranties relating to 96 loans sold to the trust. The trust was originally collateralized with approximately 7,500 loans. The plaintiff seeks specific performance of alleged repurchase obligations or damages to compensate the trust and its certificate holders for alleged actual and anticipated losses. In response to a motion filed by SCC, the court dismissed the plaintiff's claims for breach of the duty to cure or repurchase and for indemnification of its costs associated with the litigation. On September 30, 2016, the court granted a motion allowing the plaintiff to file a second amended complaint to include breach of contract claims with respect to 649 additional loans in the trust and to allow such claims with respect to other loans in the trust proven to be in material breach of SCC’s representations and warranties. SCC filed a motion for reconsideration, followed by a motion for leave to appeal the ruling, both of which were denied. On October 6, 2016, the plaintiff filed its second amended complaint. In response to a motion filed by SCC, the court dismissed the plaintiff's claim for breach of one of the representations. The case is proceeding on the remaining claims. Representatives of a holder of certificates in the trust filed a motion to intervene to add H&R Block, Inc. to the lawsuit and assert claims against H&R Block, Inc. based on alter ego, corporate veil-piercing, and agency law. On February 12, 2018, the court denied the motion to intervene. The settlement payments that were made in fiscal year 2018 for representation and warranty claims are related to some of the loans in this case. Discovery in the case is currently scheduled to close on September 30, 2019, with motions for summary judgment due on December 6, 2019. The parties have selected a mediator and are in the process of selecting a mediation date. A trial date has not yet been set. We have not concluded that a loss related to this matter is probable, nor have we accrued a liability related to this matter.

Underwriters and depositors are, or have been, involved in multiple lawsuits related to securitization transactions in which SCC participated. These lawsuits allege or alleged a variety of claims, including violations of federal and state securities laws and common law fraud, based on alleged materially inaccurate or misleading disclosures. SCC has received notices of claims for indemnification relating to lawsuits to which underwriters or depositors are party. Based on information currently available to SCC, it believes that the 21 lawsuits in which notice of a claim has been made involve 39 securitization transactions with original investments of approximately $14 billion (of which the outstanding principal amount is approximately $3.0 billion). Additional lawsuits against the underwriters or depositors may be filed in the future, and SCC may receive additional notices of claims for indemnification or contribution from underwriters or depositors with respect to existing or new lawsuits or settlements of such lawsuits. Certain of the notices received included, and future notices may include, a reservation of rights to assert claims for contribution, which are referred to herein as "contribution claims." Contribution claims may become operative if indemnification is unavailable or insufficient to cover all of the losses and expenses involved. We have not concluded that a loss related to any of these indemnification or contribution claims is probable, nor have we accrued a liability related to any of these claims.

Securitization trustees also are, or have been, involved in lawsuits related to securitization transactions in which SCC participated. Plaintiffs in these lawsuits allege, among other things, that originators, depositors, servicers, or other parties breached their representations and warranties or otherwise failed to fulfill their obligations, including that securitization trustees breached their contractual obligations, breached their fiduciary duties, or violated statutory requirements by failing to properly protect the certificate holders' interests. SCC has received notices from securitization trustees of potential indemnification obligations, and may receive additional notices with respect to existing or new lawsuits or settlements of such lawsuits, in its capacity as originator, depositor, or servicer. We have not concluded that a loss related to any of these indemnification claims is probable, nor have we accrued a liability related to any of these claims.

If the amount that SCC is ultimately required to pay with respect to claims and litigation related to its past sales and securitizations of mortgage loans, together with payment of SCC's related administration and legal expense, exceeds SCC's net assets, the creditors of SCC, other potential claimants, or a bankruptcy trustee if SCC were to file or be forced into bankruptcy, may attempt to assert claims against us for payment of SCC's obligations. Claimants may also attempt to assert claims against or seek payment directly from the Company even if SCC's assets exceed its liabilities. SCC's principal assets, as of July 31, 2019, total approximately $283 million and consist of an intercompany note receivable. We believe our legal position is strong on any potential corporate veil-piercing arguments; however, if this position is challenged and not upheld, it could have a material adverse effect on our business and our consolidated financial position, results of operations, and cash flows.

OTHER – We are from time to time a party to litigation, claims and other loss contingencies not discussed herein arising out of our business operations. These matters may include actions by state attorneys general, other state regulators, federal regulators, individual plaintiffs, and cases in which plaintiffs seek to represent others who may be similarly situated.

While we cannot provide assurance that we will ultimately prevail in each instance, we believe the amount, if any, we are required to pay to discharge or settle these other matters will not have a material adverse impact on our business and our consolidated financial position, results of operations, and cash flows.

We believe we have meritorious defenses to the claims asserted in the various matters described in this note, and we intend to defend them vigorously. The amounts claimed in the matters are substantial, however, and there can be no assurances as to their outcomes. In the event of unfavorable outcomes, it could require modifications to our operations; in addition, the amounts that may be required to be paid to discharge or settle the matters could be substantial and could have a material adverse impact on our business and our consolidated financial position, results of operations, and cash flows.

NOTE 12: CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

Block Financial LLC (Block Financial) is a 100% owned subsidiary of the Company. Block Financial is the Issuer and the Company is the full and unconditional Guarantor of the Senior Notes, our CLOC 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 STATEMENTS OF OPERATIONS

(in 000s)

Three months ended July 31, 2019	H&R Block, Inc. (Guarantor)	Block Financial (Issuer)	Other Subsidiaries	Eliminations	Consolidated H&R Block
Total revenues	$ —	$ 16,534	$ 137,059	$ (3,231)	$ 150,362
Cost of revenues	—	5,216	224,698	(522)	229,392
Selling, general and administrative	—	2,897	115,948	(2,709)	116,136
Total operating expenses	—	8,113	340,646	(3,231)	345,528
Other income (expense), net	(151,752)	10,497	13,868	136,510	9,123
Interest expense on external borrowings	—	(21,056)	(15)	—	(21,071)
Loss from continuing operations before income tax benefit	(151,752)	(2,138)	(189,734)	136,510	(207,114)
Income tax benefit	(1,505)	(178)	(59,707)	—	(61,390)
Net loss from continuing operations	(150,247)	(1,960)	(130,027)	136,510	(145,724)
Net loss from discontinued operations	—	(4,523)	—	—	(4,523)
Net loss	(150,247)	(6,483)	(130,027)	136,510	(150,247)
Other comprehensive loss	(2,320)	—	(2,320)	2,320	(2,320)
Comprehensive loss	$ (152,567)	$ (6,483)	$ (132,347)	$ 138,830	$ (152,567)

(in 000s)

Three months ended July 31, 2018	H&R Block, Inc. (Guarantor)	Block Financial (Issuer)	Other Subsidiaries	Eliminations	Consolidated H&R Block
Total revenues	$ —	$ 16,832	$ 131,477	$ (3,126)	$ 145,183
Cost of revenues	—	5,033	217,118	(591)	221,560
Selling, general and administrative	—	3,250	105,025	(2,535)	105,740
Total operating expenses	—	8,283	322,143	(3,126)	327,300
Other income (expense), net	(153,616)	9,827	7,048	141,283	4,542
Interest expense on external borrowings	—	(21,123)	(67)	—	(21,190)
Loss from continuing operations before income tax benefit	(153,616)	(2,747)	(183,685)	141,283	(198,765)
Income tax benefit	(946)	(3,701)	(45,321)	—	(49,968)
Net income (loss) from continuing operations	(152,670)	954	(138,364)	141,283	(148,797)
Net loss from discontinued operations	—	(3,873)	—	—	(3,873)
Net loss	(152,670)	(2,919)	(138,364)	141,283	(152,670)
Other comprehensive loss	(1,731)	—	(1,731)	1,731	(1,731)
Comprehensive loss	$ (154,401)	$ (2,919)	$ (140,095)	$ 143,014	$ (154,401)

CONDENSED CONSOLIDATING BALANCE SHEETS

(in 000s)

As of July 31, 2019	H&R Block, Inc. (Guarantor)	Block Financial (Issuer)	Other Subsidiaries	Eliminations	Consolidated H&R Block
Cash & cash equivalents	$ —	$ 4,641	$ 603,027	$ —	$ 607,668
Cash & cash equivalents - restricted	—	—	157,786	—	157,786
Receivables, net	—	26,392	49,736	—	76,128
Prepaid expenses and other current assets	2,811	1,682	100,630	—	105,123
Total current assets	2,811	32,715	911,179	—	946,705
Property and equipment, net	—	470	199,209	—	199,679
Operating lease right of use asset	—	334	485,813	—	486,147
Intangible assets, net	—	—	419,391	—	419,391
Goodwill	—	—	821,278	—	821,278
Deferred tax assets and income taxes receivable	464	15,953	125,999	—	142,416
Investments in subsidiaries	3,245,662	—	131,249	(3,376,911)	—
Amounts due from affiliates	—	1,547,959	2,914,289	(4,462,248)	—
Other noncurrent assets	—	62,455	31,929	—	94,384
Total assets	$ 3,248,937	$ 1,659,886	$ 6,040,336	$ (7,839,159)	$ 3,110,000
Accounts payable and accrued expenses	19,221	6,093	96,842	—	122,156
Accrued salaries, wages and payroll taxes	—	1,787	46,379	—	48,166
Accrued income taxes and reserves for uncertain tax positions	—	1,060	181,868	—	182,928
Operating lease liabilities	—	134	186,221	—	186,355
Deferred revenue and other current liabilities	—	23,861	169,503	—	193,364
Total current liabilities	19,221	32,935	680,813	—	732,969
Long-term debt	—	1,493,289	—	—	1,493,289
Deferred tax liabilities and reserves for uncertain tax positions	24,623	1,486	173,605	—	199,714
Operating lease liabilities	—	187	292,631	—	292,818
Deferred revenue and other noncurrent liabilities	—	740	99,666	—	100,406
Amounts due to affiliates	2,914,289	—	1,547,959	(4,462,248)	—
Total liabilities	2,958,133	1,528,637	2,794,674	(4,462,248)	2,819,196
Stockholders' equity	290,804	131,249	3,245,662	(3,376,911)	290,804
Total liabilities and stockholders' equity	$ 3,248,937	$ 1,659,886	$ 6,040,336	$ (7,839,159)	$ 3,110,000

CONDENSED CONSOLIDATING BALANCE SHEETS

(in 000s)

As of July 31, 2018	H&R Block, Inc. (Guarantor)	Block Financial (Issuer)	Other Subsidiaries	Eliminations	Consolidated H&R Block
Cash & cash equivalents	$ —	$ 3,759	$ 975,357	$ —	$ 979,116
Cash & cash equivalents - restricted	—	—	131,376	—	131,376
Receivables, net	—	40,457	30,119	—	70,576
Prepaid expenses and other current assets	2,811	1,954	96,290	—	101,055
Total current assets	2,811	46,170	1,233,142	—	1,282,123
Property and equipment, net	—	418	226,585	—	227,003
Intangible assets, net	—	—	354,831	—	354,831
Goodwill	—	—	507,941	—	507,941
Deferred tax assets and income taxes receivable	—	17,941	113,742	—	131,683
Investments in subsidiaries	2,762,660	—	128,396	(2,891,056)	—
Amounts due from affiliates	—	1,538,119	2,560,781	(4,098,900)	—
Other noncurrent assets	—	56,004	45,453	—	101,457
Total assets	$ 2,765,471	$ 1,658,652	$ 5,170,871	$ (6,989,956)	$ 2,605,038
Accounts payable and accrued expenses	$ 2,216	$ 7,511	$ 135,744	$ —	$ 145,471
Accrued salaries, wages and payroll taxes	—	1,423	36,045	—	37,468
Accrued income taxes and reserves for uncertain tax positions	—	1,060	177,253	—	178,313
Deferred revenue and other current liabilities	—	24,952	177,792	—	202,744
Total current liabilities	2,216	34,946	526,834	—	563,996
Long-term debt	—	1,490,668	4,338	—	1,495,006
Deferred tax liabilities and reserves for uncertain tax positions	10,465	3,989	216,838	—	231,292
Deferred revenue and other noncurrent liabilities	—	653	122,082	—	122,735
Amounts due to affiliates	2,560,781	—	1,538,119	(4,098,900)	—
Total liabilities	2,573,462	1,530,256	2,408,211	(4,098,900)	2,413,029
Stockholders' equity	192,009	128,396	2,762,660	(2,891,056)	192,009
Total liabilities and stockholders' equity	$ 2,765,471	$ 1,658,652	$ 5,170,871	$ (6,989,956)	$ 2,605,038

CONDENSED CONSOLIDATING BALANCE SHEETS

(in 000s)

As of April 30, 2019	H&R Block, Inc. (Guarantor)	Block Financial (Issuer)	Other Subsidiaries	Eliminations	Consolidated H&R Block
Cash & cash equivalents	$ —	$ 4,109	$ 1,568,041	$ —	$ 1,572,150
Cash & cash equivalents - restricted	—	—	135,577	—	135,577
Receivables, net	—	35,901	103,064	—	138,965
Prepaid expenses and other current assets	2,812	1,695	142,160	—	146,667
Total current assets	2,812	41,705	1,948,842	—	1,993,359
Property and equipment, net	—	552	211,540	—	212,092
Intangible assets, net	—	—	342,493	—	342,493
Goodwill	—	—	519,937	—	519,937
Deferred tax assets and income taxes receivable	3,218	15,953	122,808	—	141,979
Investments in subsidiaries	3,378,009	—	137,733	(3,515,742)	—
Amounts due from affiliates	—	1,562,958	2,815,617	(4,378,575)	—
Other noncurrent assets	—	54,976	35,109	—	90,085
Total assets	$ 3,384,039	$ 1,676,144	$ 6,134,079	$ (7,894,317)	$ 3,299,945
Accounts payable and accrued expenses	$ 2,272	$ 19,735	$ 227,518	$ —	$ 249,525
Accrued salaries, wages and payroll taxes	—	1,564	194,963	—	196,527
Accrued income taxes and reserves for uncertain tax positions	—	1,060	270,913	—	271,973
Deferred revenue and other current liabilities	—	21,144	183,832	—	204,976
Total current liabilities	2,272	43,503	877,226	—	923,001
Long-term debt	—	1,492,629	—	—	1,492,629
Deferred tax liabilities and reserves for uncertain tax positions	24,623	1,486	171,797	—	197,906
Deferred revenue and other noncurrent liabilities	—	793	144,089	—	144,882
Amounts due to affiliates	2,815,617	—	1,562,958	(4,378,575)	—
Total liabilities	2,842,512	1,538,411	2,756,070	(4,378,575)	2,758,418
Stockholders' equity	541,527	137,733	3,378,009	(3,515,742)	541,527
Total liabilities and stockholders' equity	$ 3,384,039	$ 1,676,144	$ 6,134,079	$ (7,894,317)	$ 3,299,945

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

(in 000s)

Three months ended July 31, 2019	H&R Block, Inc. (Guarantor)	Block Financial (Issuer)	Other Subsidiaries	Eliminations	Consolidated H&R Block
Net cash used in operating activities	$ —	$ (13,442)	$ (470,387)	$ —	$ (483,829)
Cash flows from investing:					
Capital expenditures	—	—	(15,181)	—	(15,181)
Payments made for business acquisitions, net of cash acquired	—	—	(394,411)	—	(394,411)
Franchise loans funded	—	(2,689)	(117)	—	(2,806)
Payments from franchisees	—	2,352	295	—	2,647
Intercompany borrowings (payments)	—	14,999	(87,762)	72,763	—
Other, net	—	(688)	51,632	—	50,944
Net cash provided by (used in) investing activities	—	13,974	(445,544)	72,763	(358,807)
Cash flows from financing:					
Dividends paid	(52,512)	—	—	—	(52,512)
Repurchase of common stock, including shares surrendered	(36,456)	—	—	—	(36,456)
Proceeds from exercise of stock options	1,206	—	—	—	1,206
Intercompany borrowings (payments)	87,762	—	(14,999)	(72,763)	—
Other, net	—	—	(12,431)	—	(12,431)
Net cash used in financing activities	—	—	(27,430)	(72,763)	(100,193)
Effects of exchange rates on cash	—	—	556	—	556
Net increase (decrease) in cash, including restricted balances	—	532	(942,805)	—	(942,273)
Cash, cash equivalents and restricted cash, beginning of period	—	4,109	1,703,618	—	1,707,727
Cash, cash equivalents and restricted cash, end of period	$ —	$ 4,641	$ 760,813	$ —	$ 765,454

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

(in 000s)

Three months ended July 31, 2018	H&R Block, Inc. (Guarantor)	Block Financial (Issuer)	Other Subsidiaries	Eliminations	Consolidated H&R Block
Net cash used in operating activities	$ —	$ (6,335)	$ (369,228)	$ —	$ (375,563)
Cash flows from investing:					
Capital expenditures	—	—	(12,057)	—	(12,057)
Payments made for business acquisitions, net of cash acquired	—	—	(1,449)	—	(1,449)
Franchise loans funded	—	(1,791)	(14)	—	(1,805)
Payments from franchisees	—	5,006	98	—	5,104
Intercompany borrowings (payments)	—	2,718	(152,414)	149,696	—
Other, net	—	(185)	3,830	—	3,645
Net cash provided by (used in) investing activities	—	5,748	(162,006)	149,696	(6,562)
Cash flows from financing:					
Dividends paid	(52,104)	—	—	—	(52,104)
Repurchase of common stock, including shares surrendered	(101,665)	—	—	—	(101,665)
Proceeds from exercise of stock options	1,355	—	—	—	1,355
Intercompany borrowings (payments)	152,414	—	(2,718)	(149,696)	—
Other, net	—	—	(17,494)	—	(17,494)
Net cash used in financing activities	—	—	(20,212)	(149,696)	(169,908)
Effects of exchange rates on cash	—	—	(1,153)	—	(1,153)
Net decrease in cash, including restricted balances	—	(587)	(552,599)	—	(553,186)
Cash, cash equivalents and restricted cash, beginning of period	—	4,346	1,659,332	—	1,663,678
Cash, cash equivalents and restricted cash, end of period	$ —	$ 3,759	$ 1,106,733	$ —	$ 1,110,492

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

Our subsidiaries provide assisted, DIY, and virtual tax preparation solutions through multiple channels (including in-person, online and mobile applications, virtual, and desktop software) and distribute H&R Block-branded products and services, including those of our financial partners, to the general public primarily in the U.S., Canada, Australia, and their respective territories. Tax returns are either prepared by H&R Block tax professionals (in company-owned or franchise offices, virtually or via an internet review) or prepared and filed by our clients through our DIY tax solutions. We also offer small business financial solutions through our company-owned or franchise offices and online through Wave. We report a single segment that includes all of our continuing operations.

RECENT DEVELOPMENTS

On June 28, 2019, we completed our acquisition of Wave HQ Inc. (formerly known as Wave Financial Inc.) and its subsidiaries (collectively, "Wave") for $407.0 million, subject to customary post-closing adjustments for working capital. The acquisition was funded with available cash. See additional discussion in Item 1, note 1.

RESULTS OF OPERATIONS

Consolidated - Financial Results				(in 000s, except per share amounts)
Three months ended July 31,	**2019**	2018	$ Change	% Change
Revenues:				
U.S. assisted tax preparation	**$ 32,992**	$ 31,104	$ 1,888	6.1 %
U.S. royalties	**6,859**	7,571	(712)	(9.4)%
U.S. DIY tax preparation	**3,410**	2,781	629	22.6 %
International	**40,581**	39,179	1,402	3.6 %
Refund Transfers	**1,509**	1,424	85	6.0 %
Emerald Card®	**13,855**	14,246	(391)	(2.7)%
Peace of Mind® Extended Service Plan	**32,837**	36,577	(3,740)	(10.2)%
Tax Identity Shield®	**4,522**	4,741	(219)	(4.6)%
Interest and fee income on Emerald Advance™	**554**	447	107	23.9 %
Wave	**3,625**	—	3,625	**
Other	**9,618**	7,113	2,505	35.2 %
Total revenues	**150,362**	145,183	5,179	3.6 %
Compensation and benefits:				
Field wages	**53,803**	49,932	3,871	7.8 %
Other wages	**53,837**	47,822	6,015	12.6 %
Benefits and other compensation	**26,474**	22,931	3,543	15.5 %
	134,114	120,685	13,429	11.1 %
Occupancy	**92,152**	90,726	1,426	1.6 %
Marketing and advertising	**6,779**	6,894	(115)	(1.7)%
Depreciation and amortization	**38,605**	40,432	(1,827)	(4.5)%
Bad debt	**(968)**	(858)	(110)	(12.8)%
Other [(1)]	**74,846**	69,421	5,425	7.8 %
Total operating expenses	**345,528**	327,300	18,228	5.6 %
Other income (expense), net	**9,123**	4,542	4,581	100.9 %
Interest expense on borrowings	**(21,071)**	(21,190)	119	0.6 %
Pretax loss	**(207,114)**	(198,765)	(8,349)	(4.2)%
Income tax benefit	**(61,390)**	(49,968)	(11,422)	22.9 %
Net Loss from continuing operations	**(145,724)**	(148,797)	3,073	(2.1)%
Net loss from discontinued operations	**(4,523)**	(3,873)	(650)	16.8 %
Net Loss	**$ (150,247)**	$ (152,670)	$ 2,423	(1.6)%
BASIC AND DILUTED LOSS PER SHARE:				
Continuing operations	**$ (0.72)**	$ (0.72)	$ —	— %
Discontinued operations	**(0.02)**	(0.02)	—	— %
Consolidated	**$ (0.74)**	$ (0.74)	$ —	— %
EBITDA from continuing operations [(2)]	**$ (147,438)**	$ (137,143)	(10,295)	7.5 %

(1) We reclassified $2.2 million of supplies expense from its own financial statement line to other expenses for fiscal year 2019 to conform to the current year presentation.
(2) See "Non-GAAP FInancial Information" at the end of this item for a reconciliation of non-GAAP measures.

Three months ended July 31, 2019 compared to July 31, 2018

Revenues increased $5.2 million, or 3.6%, from the prior year period. U.S. assisted tax preparation fees increased $1.9 million, or 6.1%, primarily due to higher off-season tax return volumes, slightly offset by lower net average charge.

International revenues increased $1.4 million, or 3.6%, primarily due to higher Australian tax preparation fees, offset by unfavorable exchange rates.

Revenues from POM decreased $3.7 million, or 10.2%, due to changes in the claims pattern used to recognize revenue.

Revenues of $3.6 million were recognized by Wave, which we acquired on June 28, 2019, and therefore were not included in our results of operations in the prior year period.

Total operating expenses increased $18.2 million, or 5.6%, from the prior year period. Field wages increased $3.9 million, or 7.8%, primarily due to higher wages due to the increase in return volumes. Other wages increased $6.0 million, or 12.6%, primarily due to higher information technology wages and the acquisition of Wave. Benefits and other compensation increased $3.5 million, or 15.5% primarily due to higher retirement savings plan contributions and stock-based compensation expenses.

Other expenses increased $5.4 million, or 7.8%. The components of other expenses are as follows:

Three months ended July 31,	**2019**	2018	$ Change	% Change
Consulting and outsourced services	**$ 18,189**	$ 20,815	$ (2,626)	(12.6)%
Bank partner fees	**1,482**	1,465	17	1.2 %
Client claims and refunds	**9,244**	12,622	(3,378)	(26.8)%
Employee travel and related expenses	**8,425**	6,829	1,596	23.4 %
Technology-related expenses	**17,410**	11,766	5,644	48.0 %
Credit card/bank charges	**3,992**	2,403	1,589	66.1 %
Insurance	**4,394**	3,389	1,005	29.7 %
Legal fees and settlements	**3,273**	2,573	700	27.2 %
Supplies	**3,286**	2,204	1,082	49.1 %
Other	**5,151**	5,355	(204)	(3.8)%
	$ 74,846	$ 69,421	$ 5,425	7.8 %

The increase in technology-related expenses of $5.6 million or 48.0% is due to increased investments in cloud-based technology.

FINANCIAL CONDITION

These comments should be read in conjunction with the consolidated balance sheets and consolidated statements of cash flows included in Part 1, Item 1.

CAPITAL RESOURCES AND LIQUIDITY –

OVERVIEW – Our primary sources of capital and liquidity include cash from operations (including changes in working capital), draws on our CLOC, and issuances of debt. We use our sources of liquidity primarily to fund working capital, service and repay debt, pay dividends, repurchase shares of our common stock, and acquire businesses.

Our operations are highly seasonal and substantially all of our revenues and cash flow are generated during the period from February through April. Therefore, we require the use of cash to fund losses and working capital needs from May through January, and typically rely on available cash balances from the prior tax season and borrowings to meet our off-season liquidity needs.

Given the likely availability of a number of liquidity options discussed herein, we believe that, in the absence of any unexpected developments, our existing sources of capital as of July 31, 2019 are sufficient to meet our operating, investing and financing needs.

DISCUSSION OF CONSOLIDATED STATEMENTS OF CASH FLOWS – The following table summarizes our statements of cash flows for the three months ended July 31, 2019 and 2018. See Item 1 for the complete consolidated statements of cash flows for these periods.

(in 000s)

Three months ended July 31,		2019		2018
Net cash used in:				
Operating activities	**$**	**(483,829)**	$	(375,563)
Investing activities		**(358,807)**		(6,562)
Financing activities		**(100,193)**		(169,908)
Effects of exchange rates on cash		**556**		(1,153)
Net change in cash, cash equivalents and restricted cash	**$**	**(942,273)**	$	(553,186)

Operating Activities. Cash used in operations increased, primarily due to the timing of payments for accounts payable, accrued expenses, salaries, wages and payroll taxes.

Investing Activities. Cash used in investing activities totaled $358.8 million for the three months ended July 31, 2019 compared to $6.6 million in the prior year period. This change resulted primarily from the acquisition of Wave, partially offset by the receipt of cash on an available-for-sale debt security in the current year.

Financing Activities. Cash used in financing activities totaled $100.2 million for the three months ended July 31, 2019 compared to $169.9 million in the prior year period. This change resulted primarily from lower share repurchases completed in the current year.

CASH REQUIREMENTS –

Dividends and Share Repurchases. Returning capital to shareholders in the form of dividends and the repurchase of outstanding shares has historically been a significant component of our capital allocation plan.

We have consistently paid quarterly dividends. Dividends paid totaled $52.5 million and $52.1 million for the three months ended July 31, 2019 and 2018, respectively. Although we have historically paid dividends and plan to continue to do so, there can be no assurances that circumstances will not change in the future that could affect our ability or decisions to pay dividends.

Our current share repurchase program has remaining authorization of $954.4 million which is effective through June 2022. Although we may continue to repurchase shares, there is no assurance that we will purchase up the full Board authorization.

Capital Investment. Capital expenditures totaled $15.2 million and $12.1 million for the three months ended July 31, 2019 and 2018, respectively. Our capital expenditures relate primarily to recurring improvements to retail offices, as well as investments in computers, software and related assets. In addition to our capital expenditures, we also made payments to acquire businesses. We acquired Wave and franchisee and competitor businesses totaling $394.4 million in the current year compared to franchisee and competitor businesses totaling $1.4 million in the prior year. See Item 1, note 1 and note 5 for additional information on our acquisitions.

FINANCING RESOURCES – We had no outstanding balance under the CLOC as of July 31, 2019. Amounts available to borrow were limited by the debt-to-EBITDA covenant to approximately $1.1 billion as of July 31, 2019. See Item 1, note 6 to the consolidated financial statements.

The following table provides ratings for debt issued by Block Financial as of July 31, 2019 and April 30, 2019:

As of	**July 31, 2019**			April 30, 2019		
	Short-term	Long-term	Outlook	Short-term	Long-term	Outlook
Moody's	**P-3**	**Baa3**	**Negative**	P-3	Baa3	Negative
S&P	**A-2**	**BBB**	**Stable**	A-2	BBB	Stable

There have been no material changes in our borrowings from those reported as of April 30, 2019 in our Annual Report on Form 10-K.

CASH AND OTHER ASSETS – As of July 31, 2019, we held cash and cash equivalents, excluding restricted amounts, of $607.7 million, including $140.0 million held by our foreign subsidiaries.

Foreign Operations. When necessary, our international businesses are funded by our U.S. operations. To mitigate foreign currency exchange rate risk, we sometimes enter into foreign exchange forward contracts. There were no forward contracts outstanding as of July 31, 2019.

We do not currently intend to repatriate any non-borrowed funds held by our foreign subsidiaries.

The impact of changes in foreign exchange rates during the period on our international cash balances resulted in an increase of $0.6 million during the three months ended July 31, 2019 compared to an decrease of $1.2 million in the prior year.

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS – There have been no material changes in our contractual obligations and commercial commitments from those reported as of April 30, 2019 in our Annual Report on Form 10-K.

REGULATORY ENVIRONMENT

There have been no material changes in our regulatory environment from what was reported as of April 30, 2019 in our Annual Report on Form 10-K.

NON-GAAP FINANCIAL INFORMATION

Non-GAAP financial measures should not be considered as a substitute for, or superior to, measures of financial performance prepared in accordance with GAAP. Because these measures are not measures of financial performance under GAAP and are susceptible to varying calculations, they may not be comparable to similarly titled measures for other companies.

We consider our non-GAAP financial measures to be performance measures and a useful metric for management and investors to evaluate and compare the ongoing operating performance of our business.

We may consider whether other significant items that arise in the future should be excluded from our non-GAAP financial measures.

We measure the performance of our business using a variety of metrics, including earnings before interest, taxes, depreciation and amortization (EBITDA) from continuing operations, EBITDA margin from continuing operations, and free cash flow. We also use EBITDA from continuing operations and pretax income of continuing operations, each subject to permitted adjustments, as performance metrics in incentive compensation calculations for our employees.

The following is a reconciliation of EBITDA from continuing operations to net loss:

(in 000s)

	Three months ended July 31,	
	2019	2018
Net loss - as reported	**$ (150,247)**	$ (152,670)
Discontinued operations, net	**4,523**	3,873
Net loss from continuing operations - as reported	**(145,724)**	(148,797)
Add back:		
Income taxes of continuing operations	**(61,390)**	(49,968)
Interest expense of continuing operations	**21,071**	21,190
Depreciation and amortization of continuing operations	**38,605**	40,432
	(1,714)	11,654
EBITDA from continuing operations	**$ (147,438)**	$ (137,143)

FORWARD-LOOKING INFORMATION

This report and other documents filed with the 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 or variation of words such as "expects," "anticipates," "intends," "plans," "believes," "commits," "seeks," "estimates," "projects," "forecasts," "targets," "would," "will," "should," "goal," "could," "may" or other similar expressions. Forward-looking statements provide management's current expectations or predictions of future conditions, events or results. All statements that address operating performance, events or developments that we expect or anticipate will occur in the future are forward-looking statements. They may include estimates of revenues, client trajectory, income, effective tax rate, earnings per share, cost savings, capital expenditures, dividends, share repurchases, liquidity, capital structure, market share, industry volumes or other financial items, descriptions of management's plans or objectives for future operations, services or products, or descriptions of assumptions underlying any of the above. All forward-looking statements speak only as of the date they are made and reflect the Company's good faith beliefs, assumptions and expectations, but they are not guarantees of future performance or events. Furthermore, the Company disclaims any obligation to publicly update or revise any forward-looking statement to reflect changes in underlying assumptions, factors, or expectations, new information, data or methods, future events or other changes, except as required by law.

By their nature, forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those suggested by the forward-looking statements. Factors that might cause such differences include, but are not limited to, a variety of economic, competitive, operational and regulatory factors, many of which are beyond the Company's control. In addition, factors that may cause the Company’s actual effective tax rate to differ from estimates include the Company’s actual results from operations compared to current estimates, future discrete items, changes in interpretations and assumptions the Company has made, and future actions of the Company. Investors should understand that it is not possible to predict or identify all such factors and, consequently, should not consider any such list to be a complete set of all potential risks or uncertainties.

Details about risks, uncertainties and assumptions that could affect various aspects of our business are included throughout our Annual Report on Form 10-K for the fiscal year ended April 30, 2019 and are also described from time to time in other filings with the SEC. Investors should carefully consider all of these risks, and should pay particular attention to Item 1A, "Risk Factors," and Item 7 under "Critical Accounting Policies" of our Annual Report on Form 10-K for the fiscal year ended April 30, 2019.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in our market risks from those reported at April 30, 2019 in our Annual Report on Form 10-K.

ITEM 4. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES – As of the end of the period covered by this Form 10-Q, management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)). Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of the end of the period covered by this Quarterly Report on Form 10-Q.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING – There were no changes during the last fiscal quarter that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

For a description of our material pending legal proceedings, see discussion in Part I, Item 1, note 11 to the consolidated financial statements.

ITEM 1A. RISK FACTORS

There have been no material changes in our risk factors from those reported at April 30, 2019 in our Annual Report on Form 10-K.

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

A summary of our purchases of H&R Block common stock during the first quarter of fiscal year 2020 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 Yet Be Purchased Under the Plans or Programs (2)
May 1 - May 31	**1**	**$ 26.65**	**—**	**$ 998,470**
June 1 - June 30	**132**	**$ 29.30**	**—**	**$ 998,470**
July 1 - July 31	**1,774**	**$ 27.83**	**1,593**	**$ 954,421**
	1,907	**$ 27.93**	**1,593**	

(1) We purchased approximately 314 thousand shares in connection with funding employee income tax withholding obligations arising upon the lapse of restrictions on restricted shares and restricted share units.

(2) In September 2015, we announced that our Board of Directors approved a $3.5 billion share repurchase program, effective through June 2019. In June 2019, our Board of Directors extended the share repurchase program through June 2022.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

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

10.1 Form of 2018 Long Term Incentive Plan Award Agreement for Market Stock Units, as approved on June 20, 2019, filed as Exhibit 10.1 to the Company's current report on Form 8-K filed June 24, 2019, file number 1-06089, is incorporated herein by reference.

10.2 Form of 2018 Long Term Incentive Plan Award Agreement for Performance Share Units, as approved on June 20, 2019, filed as Exhibit 10.2 to the Company's current report on Form 8-K filed June 24, 2019, file number 1-06089, is incorporated herein by reference.

10.3 Alternate Form of 2018 Long Term Incentive Plan Award Agreement for Restricted Share Units, as approved on June 20, 2019, filed as Exhibit 10.3 to the Company's current report on Form 8-K filed June 24, 2019, file number 1-06089, is incorporated herein by reference.

10.4 Alternate Form of 2018 Long Term Incentive Plan Award Agreement for Market Stock Units, as approved on June 20, 2019, filed as Exhibit 10.4 to the Company's current report on Form 8-K filed June 24, 2019, file number 1-06089, is incorporated herein by reference.

10.5 Alternate Form of 2018 Long Term Incentive Plan Award Agreement for Performance Share Units, as approved on June 20, 2019, filed as Exhibit 10.5 to the Company's current report on Form 8-K filed June 24, 2019, file number 1-06089, is incorporated herein by reference.

10.6 Form of 2018 Long Term Incentive Plan Award Agreement for Two-Year Restricted Share Units, as approved on June 20, 2019, filed as Exhibit 10.6 to the Company's current report on Form 8-K filed June 24, 2019, file number 1-06089, is incorporated herein by reference.

10.7	Alternate Form of 2018 Long Term Incentive Plan Award Agreement for Two-Year Restricted Share Units, as approved on June 20, 2019, filed as Exhibit 10.7 to the Company's current report on Form 8-K filed June 24, 2019, file number 1-06089, is incorporated herein by reference.
10.8	Amended and Restated H&R Block Executive Performance Plan
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	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH	Inline XBRL Taxonomy Extension Schema
101.CAL	Inline XBRL Extension Calculation Linkbase
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

SIGNATURES

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

H&R BLOCK, INC.

/s/ Jeffrey J. Jones II
Jeffrey J. Jones II
President and Chief Executive Officer
September 6, 2019

/s/ Tony G. Bowen
Tony G. Bowen
Chief Financial Officer
September 6, 2019

/s/ Kellie J. Logerwell
Kellie J. Logerwell
Chief Accounting Officer
September 6, 2019

Amended and Restated H&R Block Executive Performance Plan
(As Amended and Restated on June 20, 2019)

Article 1. General.

Section 1.1 Purposes. The purposes of the H&R Block Executive Performance Plan (the "Plan") are 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.

Section 1.2 Administration. The Plan shall be administered by the Compensation Committee of the Company's Board of Directors (the "Committee"). 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 2. 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, a portion thereof, or any longer period as determined by the Committee (each such fiscal year, portion thereof, or other longer period to constitute a "Performance Period"), subject to the terms and conditions of the Plan. Awards shall be in the form of cash compensation. 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% of the Target Award.

Section 2.2 Performance Targets. Performance Targets established by the Committee each year shall be based on one or more variations of the following business criteria: (a) earnings before interest, taxes, depreciation and amortization, earnings before interest and taxes, or other measures of earnings, (b) revenues, (c) free cash flow, (d) sales of products, services or accounts, (e) numbers of income tax returns prepared or number of products or services sold, (f) margins, (g) earnings per share, (h) return on equity, (i) return on invested capital, and (j) stock performance or total shareholder return. For any Performance

Period, Performance Targets may be measured on an absolute or relative basis, on an aggregate or per share basis, or by reference to an index or indices or other measures and may be based on or otherwise employ comparisons based on internal targets, the past performance of the Company (including the performance of one or more subsidiaries, divisions, segments, lines of business, or operating units or with respect to continuing operations or on a consolidated basis) or the past or current performance of other companies (or a combination of such past and current performances). In all cases, the Committee will retain the ability to exercise discretion to modify the actual Award payout based on subjective determinations or other objective performance metrics that may be established concurrently or at a later date.

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 or through the applicable payment date, as provided by the Committee, 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 60 or attainment of age 55 and the completion of at least five (5) years of employment with the Company or its subsidiaries.

Section 2.4 Determination of Awards. The Committee shall, promptly after the date on which the necessary financial or other information for a particular Performance Period becomes available, determine 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. No Participant under the Plan may receive an Award that is greater than $3,000,000 for a 12-month Performance Period or a proportionate amount for a Performance Period longer or shorter than 12 months.

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 determination 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. Awards otherwise payable hereunder may be paid on a deferred basis pursuant to the H&R Block, Inc. Deferred Compensation Plan for Executives, as amended, or pursuant to any other deferred compensation plan that may be implemented with Committee approval in compliance with the requirements of Section 409A of the Internal Revenue Code and the regulations thereunder.

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, discontinuation, 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 (as described in Financial Accounting Standards Board *Accounting Standards* 225-20 “Extraordinary and Unusual Items” (or any successor provision) or in management’s discussion and analysis of financial condition and results of operations appearing in the Company’s Annual Report on Form 10-K for the applicable fiscal year) 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, change, or event. Such adjustments shall be conclusive and binding for all purposes.

Article 3. 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 for any Award granted on or after June 20, 2019, and shall remain in effect until such time as it shall be terminated by the Board of Directors of the Company. 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. Notwithstanding the foregoing, the Board of Directors may amend the Plan from time to time as set forth in Section 3.5.

Section 3.7 Other Plans. Payments of Awards pursuant to the Plan shall not be treated as compensation for purposes of any other compensation or benefit plan, program or arrangement of the Company or any of its subsidiaries, unless either (a) such other plan's definition of compensation includes payments made pursuant to the Plan or (b) the Board of Directors or the Committee so determines.

Section 3.8 Forfeiture. If the Company is required to file restated quarterly or annual financial statements due to the Company’s material noncompliance with generally accepted accounting principles or 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 of an Award during the three-year period preceding the time period for which the Company is required to file 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. Awards are also subject to the Company's clawback policy set forth in the H&R Block, Inc. Corporate Governance Guidelines (as may be amended from time to time) and any successor or replacement policy thereto.

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 31.1

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

I, Jeffrey J. Jones II, Chief Executive Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of H&R Block, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting 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: September 6, 2019

/s/ Jeffrey J. Jones II
Jeffrey J. Jones II
Chief Executive Officer
H&R Block, Inc.

Exhibit 31.2

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

I, Tony G. Bowen, Chief Financial Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of H&R Block, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting 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: September 6, 2019

/s/ Tony G. Bowen

Tony G. Bowen
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 quarterly report of H&R Block, Inc. (the “Company”) on Form 10-Q for the fiscal quarter ending July 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Jeffrey J. Jones II, 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/ Jeffrey J. Jones II

Jeffrey J. Jones II
Chief Executive Officer
H&R Block, Inc.
September 6, 2019

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 quarterly report of H&R Block, Inc. (the “Company”) on Form 10-Q for the fiscal quarter ending July 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Tony G. Bowen, 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/ Tony G. Bowen

Tony G. Bowen
Chief Financial Officer
H&R Block, Inc.
September 6, 2019