

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, 2008

OR

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

For the transition period from to

Commission file number 1-6089



H&R BLOCK

H&R Block, Inc.

(Exact name of registrant as specified in its charter)

MISSOURI

(State or other jurisdiction of
incorporation or organization)

44-0607856

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

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

(Address of principal executive offices, including zip code)

(816) 854-3000

(Registrant's telephone number, including area code)

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

Yes No

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

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

(Do not check if a smaller reporting company)

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

Yes No

The number of shares outstanding of the registrant's Common Stock, without par value, at the close of business on July 31, 2008 was 328,088,753 shares.



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

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

	July 31, 2008	April 30, 2008
	(Unaudited)	
ASSETS		
Cash and cash equivalents	\$ 355,998	\$ 726,845
Cash and cash equivalents – restricted	221,338	219,031
Receivables from customers, brokers, dealers and clearing organizations, less allowance for doubtful accounts of \$2,077 and \$2,119	401,859	438,899
Receivables, less allowance for doubtful accounts of \$123,685 and \$123,849	383,224	552,871
Prepaid expenses and other current assets	438,872	443,934
Total current assets	1,801,291	2,381,580
Mortgage loans held for investment, less allowance for loan losses of \$46,853 and \$45,401	868,603	966,301
Property and equipment, at cost, less accumulated depreciation and amortization of \$677,357 and \$670,008	380,804	380,738
Intangible assets, net	142,533	147,368
Goodwill	1,006,207	1,005,268
Other assets	704,044	742,170
Total assets	<u>\$ 4,903,482</u>	<u>\$ 5,623,425</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Short-term borrowings	\$ —	\$ 25,000
Customer banking deposits	777,080	785,624
Accounts payable to customers, brokers and dealers	592,688	559,658
Accounts payable, accrued expenses and other current liabilities	665,973	782,280
Accrued salaries, wages and payroll taxes	142,690	393,148
Accrued income taxes	263,784	439,380
Current portion of long-term debt	108,839	111,286
Total current liabilities	2,551,054	3,096,376
Long-term debt	1,034,117	1,031,784
Other noncurrent liabilities	481,589	507,447
Total liabilities	<u>4,066,760</u>	<u>4,635,607</u>
Commitments and contingencies		
Stockholders' equity:		
Common stock, no par, stated value \$.01 per share, 800,000,000 shares authorized, 435,890,796 shares issued at July 31, 2008 and April 30, 2008	4,359	4,359
Additional paid-in capital	686,802	695,959
Accumulated other comprehensive income	833	2,486
Retained earnings	2,204,940	2,384,449
Less treasury shares, at cost	(2,060,212)	(2,099,435)
Total stockholders' equity	836,722	987,818
Total liabilities and stockholders' equity	<u>\$ 4,903,482</u>	<u>\$ 5,623,425</u>

See Notes to Condensed Consolidated Financial Statements

**CONDENSED CONSOLIDATED STATEMENTS OF
OPERATIONS AND COMPREHENSIVE INCOME (LOSS)**

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

	Three Months Ended July 31,	
	2008	2007
Revenues:		
Service revenues	\$ 301,521	\$ 325,090
Other revenues:		
Interest income	25,238	41,838
Product and other revenues	12,879	14,281
	<u>339,638</u>	<u>381,209</u>
Operating expenses:		
Cost of services	369,606	385,115
Cost of other revenues	42,823	43,529
Selling, general and administrative	140,470	144,109
	<u>552,899</u>	<u>572,753</u>
Operating loss	(213,261)	(191,544)
Other income (expense), net	(1,355)	7,964
Loss from continuing operations before tax benefit	(214,616)	(183,580)
Income tax benefit	(85,247)	(73,757)
Net loss from continuing operations	(129,369)	(109,823)
Net loss from discontinued operations	(3,350)	(192,757)
Net loss	<u>\$(132,719)</u>	<u>\$ (302,580)</u>
Basic and diluted loss per share:		
Net loss from continuing operations	\$ (0.40)	\$ (0.34)
Net loss from discontinued operations	(0.01)	(0.59)
Net loss	<u>\$ (0.41)</u>	<u>\$ (0.93)</u>
Basic and diluted shares	<u>327,141</u>	<u>323,864</u>
Dividends per share	<u>\$ 0.143</u>	<u>\$ 0.136</u>
Comprehensive income (loss):		
Net loss	\$(132,719)	\$ (302,580)
Change in unrealized gain on available-for-sale securities, net	(1,967)	(463)
Change in foreign currency translation adjustments	314	4,311
Comprehensive loss	<u>\$(134,372)</u>	<u>\$(298,732)</u>

See Notes to Condensed Consolidated Financial Statements

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited, amounts in 000s)

Three Months Ended July 31,	2008	2007
Cash flows from operating activities:		
Net loss	\$(132,719)	\$ (302,580)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	29,556	37,075
Stock-based compensation	5,487	7,398
Operating cash flows of discontinued operations	-	212,323
Other, net of business acquisitions	(218,660)	(289,562)
Net cash used in operating activities	(316,336)	(335,346)
Cash flows from investing activities:		
Principal repayments on mortgage loans held for investment, net	31,619	14,327
Purchases of property and equipment, net	(16,189)	(14,497)
Payments made for business acquisitions, net of cash acquired	(2,251)	(20,887)
Net cash provided by investing activities of discontinued operations	-	3,068
Other, net	2,891	6,699
Net cash provided by (used in) investing activities	16,070	(11,290)
Cash flows from financing activities:		
Repayments of commercial paper	-	(3,463,719)
Proceeds from issuance of commercial paper	-	3,622,874
Repayments of other short-term borrowings	(40,000)	(560,000)
Proceeds from other short-term borrowings	15,000	485,000
Customer deposits, net	(8,795)	(90,378)
Dividends paid	(46,790)	(43,937)
Acquisition of treasury shares	(4,116)	(5,372)
Proceeds from exercise of stock options	20,520	9,788
Net cash used in financing activities of discontinued operations	-	(47,535)
Other, net	(6,400)	(44,252)
Net cash used in financing activities	(70,581)	(137,531)
Net decrease in cash and cash equivalents	(370,847)	(484,167)
Cash and cash equivalents at beginning of the period	726,845	921,838
Cash and cash equivalents at end of the period	\$ 355,998	\$ 437,671
Supplementary cash flow data:		
Income taxes paid, net of refunds received of \$1,198 and \$1,867	\$ 83,111	\$ 9,653
Interest paid on borrowings	27,258	27,833
Interest paid on deposits	4,048	15,792

See Notes to Condensed Consolidated Financial Statements

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

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

	Common Stock		Convertible Preferred Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock		Total Equity
	Shares	Amount	Shares	Amount				Shares	Amount	
Balances at April 30, 2007	435,891	\$ 4,359	-	\$ -	\$ 676,766	\$ (1,320)	\$ 2,886,440	(112,672)	\$ (2,151,746)	\$ 1,414,499
Remeasurement of uncertain tax positions upon adoption of FIN 48	-	-	-	-	-	-	(9,716)	-	-	(9,716)
Net loss	-	-	-	-	-	-	(302,580)	-	-	(302,580)
Unrealized translation gain (loss)	-	-	-	-	-	4,311	-	-	-	4,311
Change in net unrealized gain on available-for-sale securities	-	-	-	-	-	(463)	-	-	-	(463)
Stock-based compensation	-	-	-	-	9,226	-	-	-	-	9,226
Shares issued for:										
Option exercises	-	-	-	-	(1,431)	-	-	668	12,758	11,327
Nonvested shares	-	-	-	-	(13,349)	-	-	663	12,669	(680)
ESPP	-	-	-	-	400	-	-	218	4,161	4,561
Acquisitions	-	-	-	-	35	-	-	8	151	186
Acquisition of treasury shares	-	-	-	-	-	-	-	(230)	(5,372)	(5,372)
Cash dividends paid – \$0.14 per share	-	-	-	-	-	-	(43,937)	-	-	(43,937)
Balances at July 31, 2007	435,891	\$ 4,359	-	\$ -	\$ 671,647	\$ 2,528	\$ 2,530,207	(111,345)	\$ (2,127,379)	\$ 1,081,362
Balances at April 30, 2008	435,891	\$ 4,359	-	\$ -	\$ 695,959	\$ 2,486	\$ 2,384,449	(109,880)	\$ (2,099,435)	\$ 987,818
Net loss	-	-	-	-	-	-	(132,719)	-	-	(132,719)
Unrealized translation gain	-	-	-	-	-	314	-	-	-	314
Change in net unrealized gain (loss) on available-for-sale securities	-	-	-	-	-	(1,967)	-	-	-	(1,967)
Stock-based compensation	-	-	-	-	5,487	-	-	-	-	5,487
Shares issued for:										
Option exercises	-	-	-	-	(3,760)	-	-	1,557	29,759	25,999
Nonvested shares	-	-	-	-	(10,456)	-	-	510	9,749	(707)
ESPP	-	-	-	-	(453)	-	-	192	3,668	3,215
Acquisitions	-	-	-	-	25	-	-	9	163	188
Acquisition of treasury shares	-	-	-	-	-	-	-	(190)	(4,116)	(4,116)
Cash dividends paid – \$0.14 per share	-	-	-	-	-	-	(46,790)	-	-	(46,790)
Balances at July 31, 2008	435,891	\$ 4,359	-	\$ -	\$ 686,802	\$ 833	\$ 2,204,940	(107,802)	\$ (2,060,212)	\$ 836,722

See Notes to Condensed Consolidated Financial Statements

1. Basis of Presentation

The condensed consolidated balance sheet as of July 31, 2008, the condensed consolidated statements of operations and comprehensive income (loss) for the three months ended July 31, 2008 and 2007, the condensed consolidated statements of cash flows for the three months ended July 31, 2008 and 2007, and the condensed consolidated statement of stockholders' equity for the three months ended July 31, 2008 and 2007 have been prepared by the Company, without audit. In the opinion of management, all adjustments, which include only normal recurring adjustments, necessary to present fairly the financial position, results of operations, cash flows and changes in stockholders' equity at July 31, 2008 and for all periods presented have been made. The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

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

Certain reclassifications have been made to prior year amounts to conform to the current year presentation. These reclassifications had no effect on our results of operations or stockholders' equity as previously reported.

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

Operating revenues of the Tax Services and Business Services segments are seasonal in nature with peak revenues occurring in the months of January through April. Therefore, results for interim periods are not indicative of results to be expected for the full year.

2. Earnings (Loss) Per Share

Basic and diluted loss per share is computed using the weighted average shares outstanding during each period. The dilutive effect of potential common shares is included in diluted earnings per share except in those periods with a loss from continuing operations. Diluted earnings per share excludes the impact of shares of common stock issuable upon the lapse of certain restrictions or the exercise of options to purchase 25.7 million shares and 31.3 million shares for the three months ended July 31, 2008 and 2007, respectively, as the effect would be antidilutive due to the net loss from continuing operations during each period.

The weighted average shares outstanding for the three months ended July 31, 2008 increased to 327.1 million from 323.9 million at July 31, 2007, primarily due the issuance of treasury shares related to our stock-based compensation plans.

During the three months ended July 31, 2008 and 2007, we issued 2.3 million and 1.6 million shares of common stock, respectively, due to the exercise of stock options, employee stock purchases and awards of nonvested shares.

During the three months ended July 31, 2008, we acquired 0.2 million shares of our common stock, which represent shares swapped or surrendered to us in connection with the vesting of nonvested shares and the exercise of stock options, at an aggregate cost of \$4.1 million. During the three months ended July 31, 2007, we acquired 0.2 million shares of our common stock, which represent shares swapped or surrendered to us in connection with the vesting of nonvested shares and the exercise of stock options, at an aggregate cost of \$5.4 million.

During the three months ended July 31, 2008, we granted 4.1 million stock options and 0.9 million nonvested shares and units in accordance with our stock-based compensation plans. The weighted average fair value of options granted was \$3.70 for manager options and \$2.83 for options granted to our

seasonal associates. At July 31, 2008, the total unrecognized compensation cost for options and nonvested shares and units was \$19.0 million and \$34.1 million, respectively.

3. Goodwill and Intangible Assets

Changes in the carrying amount of goodwill for the three months ended July 31, 2008 consist of the following:

	(in 000s)			
	April 30, 2008	Additions	Other	July 31, 2008
Tax Services	\$ 431,981	\$ 2,350	\$ (915)	\$ 433,416
Business Services	399,333	-	(496)	398,837
Consumer Financial Services	173,954	-	-	173,954
Total	\$ 1,005,268	\$ 2,350	\$(1,411)	\$ 1,006,207

We test goodwill for impairment annually at the beginning of our fourth quarter, or more frequently if events occur indicating it is more likely than not the fair value of a reporting unit's net assets has been reduced below its carrying value. No impairments of goodwill were identified within any of our operating segments during the three months ended July 31, 2008.

Intangible assets consist of the following:

	July 31, 2008			April 30, 2008		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Tax Services:						
Customer relationships	\$ 46,465	\$ (23,315)	\$ 23,150	\$ 46,479	\$ (22,007)	\$ 24,472
Noncompete agreements	22,966	(20,329)	2,637	22,966	(19,981)	2,985
Purchased technology	12,500	(2,773)	9,727	12,500	(2,283)	10,217
Trade name	1,025	(142)	883	1,025	(117)	908
Business Services:						
Customer relationships	144,031	(103,143)	40,888	143,402	(100,346)	43,056
Noncompete agreements	32,442	(18,193)	14,249	32,303	(17,589)	14,714
Trade name – amortizing	3,290	(3,060)	230	3,290	(3,043)	247
Trade name – non-amortizing	55,637	(4,868)	50,769	55,637	(4,868)	50,769
Consumer Financial Services:						
Customer relationships	-	-	-	293,000	(293,000)	-
	\$318,356	\$ (175,823)	\$142,533	\$610,602	\$ (463,234)	\$147,368

Amortization of intangible assets for the three months ended July 31, 2008 and 2007 was \$5.6 million and \$15.5 million, respectively. Estimated amortization of intangible assets for fiscal years 2009 through 2013 is \$22.8 million, \$20.2 million, \$18.4 million, \$15.7 million and \$11.7 million, respectively.

4. Income Taxes

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

During the three months ended July 31, 2008, we accrued an additional \$2.9 million of interest & penalties related to our uncertain tax positions. We had unrecognized tax benefits of \$137.2 million and \$137.6 million at July 31, 2008 and April 30, 2008, respectively. There were no significant changes in our unrealized tax positions during the quarter. We have classified the liability for unrecognized tax benefits, including corresponding accrued interest, as long-term at July 31, 2008, which is included in other noncurrent liabilities on the condensed consolidated balance sheet. Amounts that we expect to pay, or for which statutes expire, within the next twelve months have been included in accounts payable, accrued expenses and other current liabilities on the condensed consolidated balance sheet.

Based upon the expiration of statutes of limitations, payments of tax and other factors in several jurisdictions, we believe it is reasonably possible that the total amount of previously unrecognized tax benefits may decrease by approximately \$9 to \$10 million within twelve months of July 31, 2008.

5. Interest Income and Expense

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

Three Months Ended July 31,	2008	2007
(in 000s)		
Interest income:		
Mortgage loans, net	\$13,265	\$ 22,491
Margin receivables	5,025	7,437
Other	6,948	11,910
	<u>25,238</u>	<u>41,838</u>
Operating interest expense:		
Borrowings	18,430	12,360
Deposits	4,043	14,243
Federal Home Loan Bank (FHLB) advances	1,328	1,890
	<u>23,801</u>	<u>28,493</u>
Interest expense – acquisition debt	413	595
Net interest income	<u>\$ 1,024</u>	<u>\$12,750</u>

6. Fair Value

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

Fair Value Hierarchy

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

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

Estimation of Fair Value

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

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

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

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following table presents for each hierarchy level the assets that are measured at fair value on a recurring basis at July 31, 2008: (dollars in 000s)

	Total	Level 1	Level 2	Level 3
Trading securities	\$11,664	\$1,542	\$10,122	\$-
Available-for-sale securities	52,438	4,994	47,444	-
Mortgage loans held for sale	8,804	-	8,804	-
Residual interests in securitizations	8,466	-	-	8,466
	<u>\$81,372</u>	<u>\$6,536</u>	<u>\$66,370</u>	<u>\$8,466</u>
As a percentage of total assets	1.7%	0.1%	1.4%	0.2%

The following table presents changes in Level 3 assets measured at fair value on a recurring basis for the three months ended July 31, 2008:

	(in 000s)
Fair value, beginning of period	\$16,678
Losses:	
Included in earnings	(4,953)
Included in other comprehensive income (loss)	(2,320)
Cash received	(939)
Fair value, end of period	<u>\$ 8,466</u>

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

Fair Value Option

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

7. Regulatory Requirements

Registered Broker-Dealer

H&R Block Financial Advisors, Inc. (HRBFA) is subject to regulatory requirements intended to ensure the general financial soundness and liquidity of broker-dealers. At July 31, 2008, HRBFA’s net capital of \$60.4 million, which was 14.4% of aggregate debit items, exceeded its minimum required net capital of \$8.4 million by \$52.0 million.

HRBFA had pledged customer-owned securities with a fair value of \$48.5 million at July 31, 2008 with a clearing organization to satisfy margin deposit requirements of \$40.4 million.

Banking

H&R Block Bank (HRB Bank) and the Company are subject to various regulatory capital guidelines and requirements administered by federal banking agencies. Failure to meet minimum capital requirements can trigger certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on HRB Bank and our consolidated financial statements. All savings associations are subject to the capital adequacy guidelines and the regulatory framework for prompt corrective action. HRB Bank must meet specific capital guidelines that involve quantitative measures of HRB Bank's assets, liabilities and certain off-balance sheet items, as calculated under regulatory accounting practices. HRB Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. HRB Bank files its regulatory Thrift Financial Report (TFR) on a calendar quarter basis.

Quantitative measures established by regulation to ensure capital adequacy require HRB Bank to maintain minimum amounts and ratios of tangible equity, total risk-based capital and Tier 1 capital, as set forth in the table below. In addition to these minimum ratio requirements, HRB Bank is required to continually maintain a 12.0% minimum leverage ratio as a condition of its charter-approval order through fiscal year 2009. This condition was extended through fiscal year 2012 as a result of a Supervisory Directive issued on May 29, 2007. As of July 31, 2008, HRB Bank's leverage ratio was 12.3%.

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

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

	(dollars in 000s)					
	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total risk-based capital ratio(1)	\$ 147,747	23.4%	\$ 50,557	8.0%	\$ 63,197	10.0%
Tier 1 risk-based capital ratio(2)	\$ 139,558	22.1%	n/a	n/a	\$ 37,918	6.0%
Tier 1 capital ratio (leverage)(3)	\$ 139,558	13.1%	\$ 128,177	12.0%	\$ 53,407	5.0%
Tangible equity ratio(4)	\$ 139,558	13.1%	\$ 16,022	1.5%	n/a	n/a

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

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

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

(4) Tangible capital divided by tangible assets.

8. Commitments and Contingencies

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

	(in 000s)	
	2008	2007
Three Months Ended July 31,		
Balance, beginning of period	\$140,583	\$142,173
Amounts deferred for new guarantees issued	513	470
Revenue recognized on previous deferrals	(27,241)	(27,237)
Balance, end of period	<u>\$113,855</u>	<u>\$115,406</u>

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

As of	July 31, 2008	April 30, 2008
(in 000s)		
Commitment to fund Franchise Equity		
Lines of Credit	\$ 78,915	\$ 79,134
Contingent business acquisition obligations	24,214	24,288
Media advertising purchase obligation	19,043	19,043

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

Mortgage Loan Repurchase Liability

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

	Three Months Ended		Year Ended
	July 31, 2008	July 31, 2007	April 30, 2008
Loan repurchase liability at end of period	\$ 238,123	\$ 72,199	\$ 243,066
Loans repurchased and indemnification payments during the period	6,913	193,640	515,370
Repurchase reserves added during the period	-	157,296	582,373

9. Litigation and Related Contingencies

We are party to investigations, legal claims and lawsuits arising out of our business operations. We accrue our best estimate of the probable loss upon resolution of investigations, legal claims and lawsuits, which totaled \$10.5 million and \$11.5 million at July 31, 2008 and April 30, 2008, respectively. With respect to most of the matters described below, we have concluded that a loss is not probable and therefore no liability has been recorded.

RAL Litigation

We have been named as a defendant in numerous lawsuits throughout the country regarding our refund anticipation loan programs (collectively, "RAL Cases"). The RAL Cases have involved a variety of legal theories asserted by plaintiffs. These theories include allegations that, among other things: disclosures in the RAL applications were inadequate, misleading and untimely; the RAL interest rates were usurious and unconscionable; we did not disclose that we would receive part of the finance charges paid by the

customer for such loans; untrue, misleading or deceptive statements in marketing RALs; breach of state laws on credit service organizations; breach of contract, unjust enrichment, unfair and deceptive acts or practices; violations of the federal Racketeer Influenced and Corrupt Organizations Act; violations of the federal Fair Debt Collection Practices Act and unfair competition regarding debt collection activities; and that we owe, and breached, a fiduciary duty to our customers in connection with the RAL program.

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

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

Peace of Mind Litigation

We are defendants in lawsuits regarding our Peace of Mind program (collectively, the "POM Cases"). The POM Cases are described below.

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

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

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

Electronic Filing Litigation

We are a defendant in a class action filed on August 30, 2002 and entitled *Erin M. McNulty and Brian J. Erzar v. H&R Block, Inc., et al.*, Case No. 02-CIV-4654 in the Court of Common Pleas of Lackawanna County, Pennsylvania, in which the plaintiffs allege that the defendants deceptively portray electronic filing fees as a necessary and required component of standard tax preparation services and do not inform tax preparation clients that they may (1) file tax returns free of charge by mailing the returns, (2) electronically file tax returns from personal computers either free of charge or at significantly lower

fees and (3) be eligible to electronically file tax returns free of charge via telephone. The plaintiffs seek unspecified damages and disgorgement of all electronic filing, tax preparation and related fees collected during the applicable class period. Class certification was granted in this case on September 5, 2007. In March 2008, we reached a tentative agreement to settle this case for an amount not to exceed \$2.5 million and have accrued \$1.5 million, representing our best estimate of ultimate loss. The settlement was preliminarily approved on June 27, 2008, with a final fairness hearing scheduled for September 2008.

Express IRA Litigation

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

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

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

We are unable to determine an estimate of the possible loss or range of loss, if any, in light of the early stages of the Express IRA litigation.

Securities Litigation

On April 6, 2007, a putative class action styled *In re H&R Block Securities Litigation* was filed against the Company and certain of its officers in the United States District Court for the Western District of Missouri. The complaint alleged, among other things, deceptive, material and misleading financial statements, failure to prepare financial statements in accordance with generally accepted accounting principles and concealment of the potential for lawsuits stemming from the allegedly fraudulent nature of the Company's operations. The complaint sought unspecified damages and equitable relief. On October 5, 2007, the court dismissed the complaint and granted the plaintiffs leave to re-file the portion of the complaint pertaining to the Company's financial statements. On November 19, 2007, the plaintiffs re-filed the complaint, alleging, among other things, deceptive, material and misleading financial statements and failure to prepare financial statements in accordance with generally accepted accounting principles. The court dismissed the re-filed complaint on February 19, 2008. On March 11, 2008, the plaintiffs appealed the dismissal. In addition, plaintiffs in a shareholder derivative action that was consolidated into the securities litigation filed a separate appeal on March 18, 2008, contending that the derivative action was improperly consolidated. The derivative action is *Iron Workers Local 16 Pension Fund v. H&R Block, et al.*, in the United States District Court for the Western District of Missouri, Case No. 06-cv-00466-ODS (instituted on June 8, 2006) and was brought against certain of our directors and officers purportedly on behalf of the Company. The derivative action alleges breach of fiduciary duty, abuse of control, gross mismanagement, waste, and unjust enrichment pertaining to (1) our restatement of financial results in

fiscal year 2006 due to errors in determining our state effective income tax rate and (2) certain of our products and business activities. We believe the claims in these cases are without merit and intend to defend this litigation vigorously. We currently do not believe that we will incur a material loss with respect to this litigation.

RSM McGladrey Litigation

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

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

Litigation and Claims Pertaining to Discontinued Mortgage Operations

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

On June 3, 2008, the Massachusetts Attorney General filed a lawsuit in the Superior Court of Suffolk County, Massachusetts (Case No. 08-2474-BLS) entitled *Commonwealth of Massachusetts v. H&R Block, Inc., et al.*, alleging unfair, deceptive and discriminatory origination and servicing of mortgage loans and seeks equitable relief, disgorgement of profits, restitution and statutory penalties. We believe the claims in this case are without merit, and we intend to defend this case vigorously, but there are no assurances as to its outcome. We are unable to determine an estimate of the possible loss or range of loss, if any, in light of the early stages of this litigation.

SCC also remains subject to potential claims for indemnification and loan repurchases pertaining to loans previously sold. In the current non-prime mortgage environment, it is likely that the frequency of repurchase and indemnification claims may increase over historical experience and give rise to additional litigation. In some instances, H&R Block, Inc. was required to guarantee SCC's obligations. The amounts involved in these potential claims may be substantial, and the ultimate resulting liability is difficult to

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

Other Claims and Litigation

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

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

10. Segment Information

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

	(in 000s)	
Three Months Ended July 31,	2008	2007
Revenues:		
Tax Services	\$ 75,265	\$ 69,863
Business Services	174,651	192,823
Consumer Financial Services	86,679	114,372
Corporate	3,043	4,151
	<u>\$ 339,638</u>	<u>\$ 381,209</u>
Pretax income (loss):		
Tax Services	\$(163,923)	\$(172,289)
Business Services	(295)	(1,906)
Consumer Financial Services	(17,736)	6,206
Corporate	(32,662)	(15,591)
Loss from continuing operations before tax benefit	<u>\$(214,616)</u>	<u>\$(183,580)</u>

11. Accounting Pronouncements

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

In December 2007, Statement of Financial Accounting Standards No. 141(R), "Business Combinations," (SFAS 141R), and Statement of Financial Accounting Standards No. 160, "Non-Controlling Interests in Consolidated Financial Statements – An Amendment of ARB No. 51" (SFAS 160) were issued. These standards will require an acquiring entity to recognize all the assets acquired and liabilities assumed in a transaction, including non-controlling interests, at the acquisition-date fair value with limited exceptions. The provisions of these standards are effective as of the beginning of our fiscal year 2010. We are currently evaluating what effect the adoption of SFAS 141R and SFAS 160 will have on our consolidated financial statements.

As discussed in note 6, we adopted SFAS 157 and SFAS 159 as of May 1, 2008.

12. Discontinued Operations

During fiscal year 2008, we exited the mortgage business operated through a subsidiary and sold the related loan servicing business. Our discontinued operations reflect the wind-down of our mortgage origination business and, as a result, our discontinued operations reported a net loss of \$3.4 million for the three months ended July 31, 2008 compared to \$192.8 million in the prior year.

The financial results of discontinued operations are as follows:

(in 000s)		
Three Months Ended July 31,	2008	2007
Net revenue	\$ 1,137	\$ (123,390)
Loss from operations before income tax benefit	(3,957)	(312,168)
Impairment related to the disposition of businesses	-	(23,229)
Pretax loss	(3,957)	(335,397)
Income tax benefit	(607)	(142,640)
Net loss from discontinued operations	<u>\$ (3,350)</u>	<u>\$ (192,757)</u>

Restructuring Charge

During fiscal year 2006, our mortgage business initiated a restructuring plan to reduce costs. Restructuring activities continued into the current year, including our previously announced closure of all mortgage origination activities and sale of servicing operations. We did not incur any charges during the three months ended July 31, 2008, compared to \$16.1 million in the prior year. Changes in our restructuring charge liability during the three months ended July 31, 2008 are as follows:

(in 000s)				
	Accrual Balance as of April 30, 2008	Cash Payments	Other Adjustments	Accrual Balance as of July 31, 2008
Employee severance costs	\$ 4,807	\$ (2,453)	\$ 1,219	\$ 3,573
Contract termination costs	23,113	(3,931)	157	19,339
	<u>\$ 27,920</u>	<u>\$ (6,384)</u>	<u>\$ 1,376</u>	<u>\$ 22,912</u>

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

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

13. Subsequent Events

On August 12, 2008, we announced the signing of a definitive agreement to sell HRBFA to Ameriprise Financial, Inc. The transaction is subject to customary regulatory approvals, and is expected to close in three to six months. The purchase price is \$315 million in cash, subject to working capital and advisor retention adjustments at closing. The transaction is not expected to result in a material gain or loss for financial reporting purposes. The transaction involves the sale of all outstanding common stock of HRB

Financial Corporation, HRBFA's direct parent, and is expected to result in a capital loss for income tax purposes. We currently do not expect to be able to realize a benefit for this capital loss.

This business will be presented as held-for-sale and as discontinued operations beginning with our quarter ending October 31, 2008. Major classes of assets and liabilities of HRB Financial Corporation as of July 31, 2008 are as follows:

	(in 000s)
Cash and cash equivalents	\$ 110,535
Cash and cash equivalents – restricted	219,000
Accounts receivable from customers, brokers and dealers	401,859
Prepaid expenses and other assets	73,699
Goodwill	173,954
Total assets	<u>\$979,047</u>
Accounts payable to customers, brokers and dealers	\$ 592,688
Accounts payable, accrued expenses and deposits	38,486
Other liabilities	52,268
Total liabilities	<u>\$683,422</u>

Had HRBFA been reported as discontinued operations as of July 31, 2008, revenues of \$67.7 million and \$87.2 million for the three months ended July 31, 2008 and 2007, respectively, and a pretax loss of \$1.8 million and pretax income of \$3.9 million, respectively, would have been included in discontinued operations on our consolidated statements of operations. Overhead costs of a continuing nature which would have previously been allocated to HRBFA totaled \$1.8 million and \$2.5 million for the three months ended July 31, 2008 and 2007, respectively, and will be included in continuing operations.

On September 3, 2008 we announced the signing of a definitive agreement to acquire our last major independent franchise operator for approximately \$278 million. This franchise includes a network of over 600 tax offices, nearly two-thirds of which will convert to company-owned offices upon the closing of the transaction. The remaining offices are currently operated by sub-franchisees and, as a result, will become our direct franchises. The transaction is expected to close by the end of our second fiscal quarter.

14. Condensed Consolidating Financial Statements

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

Condensed Consolidating Income Statements					(in 000s)
Three Months Ended July 31, 2008	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Elims	Consolidated H&R Block
Total revenues	\$ -	\$ 88,504	\$ 252,572	\$ (1,438)	\$ 339,638
Cost of services	-	52,033	317,569	4	369,606
Cost of other revenues	-	39,620	3,203	-	42,823
Selling, general and administrative	-	37,829	104,083	(1,442)	140,470
Total expenses	-	129,482	424,855	(1,438)	552,899
Operating loss	-	(40,978)	(172,283)	-	(213,261)
Other income, net	(214,616)	(4,350)	2,995	214,616	(1,355)
Loss from continuing operations before tax benefit	(214,616)	(45,328)	(169,288)	214,616	(214,616)
Income tax benefit	(85,247)	(17,712)	(67,535)	85,247	(85,247)
Net loss from continuing operations	(129,369)	(27,616)	(101,753)	129,369	(129,369)
Net loss from discontinued operations	(3,350)	(3,350)	-	3,350	(3,350)
Net loss	\$ (132,719)	\$ (30,966)	\$ (101,753)	\$ 132,719	\$ (132,719)

Three Months Ended July 31, 2007	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Elims	Consolidated H&R Block
Total revenues	\$ -	\$ 189,100	\$ 194,355	\$ (2,246)	\$ 381,209
Cost of services	-	63,529	321,553	33	385,115
Cost of other revenues	-	37,637	5,892	-	43,529
Selling, general and administrative	-	45,469	100,535	(1,895)	144,109
Total expenses	-	146,635	427,980	(1,862)	572,753
Operating income (loss)	-	42,465	(233,625)	(384)	(191,544)
Other income, net	(183,580)	(5)	7,969	183,580	7,964
Income (loss) from continuing operations before tax (benefit)	(183,580)	42,460	(225,656)	183,196	(183,580)
Income tax (benefit)	(73,757)	14,622	(88,225)	73,603	(73,757)
Net income (loss) from continuing operations	(109,823)	27,838	(137,431)	109,593	(109,823)
Net loss from discontinued operations	(192,757)	(190,143)	(2,923)	193,066	(192,757)
Net loss	\$ (302,580)	\$ (162,305)	\$ (140,354)	\$ 302,659	\$ (302,580)

Condensed Consolidating Balance Sheets (in 000s)

July 31, 2008	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Elims	Consolidated H&R Block
Cash & cash equivalents	\$ -	\$ 148,374	\$ 208,102	\$ (478)	\$ 355,998
Cash & cash equivalents – restricted	-	220,516	822	-	221,338
Receivables from customers, brokers and dealers, net	-	401,859	-	-	401,859
Receivables, net	3,346	116,914	262,964	-	383,224
Mortgage loans held for investment	-	868,603	-	-	868,603
Intangible assets and goodwill, net	-	173,954	974,786	-	1,148,740
Investments in subsidiaries	3,987,649	-	352	(3,987,649)	352
Other assets	-	568,663	954,694	11	1,523,368
Total assets	\$ 3,990,995	\$ 2,498,883	\$ 2,401,720	\$ (3,988,116)	\$ 4,903,482
Accts. payable to customers, brokers and dealers	\$ -	\$ 592,688	\$ -	\$ -	\$ 592,688
Customer deposits	-	777,558	-	(478)	777,080
Long-term debt	-	1,101,975	40,981	-	1,142,956
Other liabilities	2	501,563	1,052,419	52	1,554,036
Net intercompany advances	3,154,271	(683,051)	(2,471,179)	(41)	-
Stockholders' equity	836,722	208,150	3,779,499	(3,987,649)	836,722
Total liabilities and stockholders' equity	\$ 3,990,995	\$ 2,498,883	\$ 2,401,720	\$ (3,988,116)	\$ 4,903,482

April 30, 2008	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Elims	Consolidated H&R Block
Cash & cash equivalents	\$ -	\$ 96,559	\$ 630,933	\$ (647)	\$ 726,845
Cash & cash equivalents – restricted	-	218,214	817	-	219,031
Receivables from customers, brokers and dealers, net	-	438,899	-	-	438,899
Receivables, net	139	141,398	411,334	-	552,871
Mortgage loans held for investment	-	966,301	-	-	966,301
Intangible assets and goodwill, net	-	173,954	978,682	-	1,152,636
Investments in subsidiaries	4,131,345	-	322	(4,131,345)	322
Other assets	-	596,612	969,896	12	1,566,520
Total assets	\$ 4,131,484	\$ 2,631,937	\$ 2,991,984	\$ (4,131,980)	\$ 5,623,425
Short-term borrowings	\$ -	\$ 25,000	\$ -	\$ -	\$ 25,000
Customer deposits	-	786,271	-	(647)	785,624
Accts. payable to customers, brokers and dealers	-	559,658	-	-	559,658
Long-term debt	-	1,101,885	41,185	-	1,143,070
Other liabilities	2	551,024	1,571,178	51	2,122,255
Net intercompany advances	3,143,664	(632,522)	(2,511,103)	(39)	-
Stockholders' equity	987,818	240,621	3,890,724	(4,131,345)	987,818
Total liabilities and stockholders' equity	\$ 4,131,484	\$ 2,631,937	\$ 2,991,984	\$ (4,131,980)	\$ 5,623,425

Condensed Consolidating Statements of Cash Flows						(in 000s)
Three Months Ended July 31, 2008	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Elims	Consolidated H&R Block	
Net cash provided by (used in) operating activities:	\$ (11,615)	\$ 107,012	\$ (411,733)	\$ -	\$ (316,336)	
Cash flows from investing:						
Mortgage loans originated for investment, net	-	31,619	-	-	31,619	
Purchase property & equipment	-	(1,727)	(14,462)	-	(16,189)	
Payments for business acquisitions	-	-	(2,251)	-	(2,251)	
Net intercompany advances	29,630	-	-	(29,630)	-	
Other, net	-	2,906	(15)	-	2,891	
Net cash provided by (used in) investing activities	29,630	32,798	(16,728)	(29,630)	16,070	
Cash flows from financing:						
Repayments of short-term borrowings	-	(40,000)	-	-	(40,000)	
Proceeds from short-term borrowings	-	15,000	-	-	15,000	
Customer deposits	-	(8,964)	-	169	(8,795)	
Dividends paid	(46,790)	-	-	-	(46,790)	
Proceeds from stock options	20,520	-	-	-	20,520	
Net intercompany advances	-	(50,203)	20,573	29,630	-	
Other, net	8,255	(3,828)	(14,943)	-	(10,516)	
Net cash provided by (used in) financing activities	(18,015)	(87,995)	5,630	29,799	(70,581)	
Net increase (decrease) in cash	-	51,815	(422,831)	169	(370,847)	
Cash – beginning of period	-	96,559	630,933	(647)	726,845	
Cash – end of period	\$ -	\$ 148,374	\$ 208,102	\$ (478)	\$ 355,998	

Three Months Ended July 31, 2007	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Elims	Consolidated H&R Block	
Net cash provided by (used in) operating activities:	\$ 8,194	\$ (10,196)	\$ (333,344)	\$ -	\$ (335,346)	
Cash flows from investing:						
Mortgage loans originated for investment, net	-	14,327	-	-	14,327	
Purchase property & equipment	-	(5,124)	(9,373)	-	(14,497)	
Payments for business acquisitions	-	-	(20,887)	-	(20,887)	
Net intercompany advances	24,566	-	-	(24,566)	-	
Investing cash flows from discontinued operations	-	(557)	3,625	-	3,068	
Other, net	-	(295)	6,994	-	6,699	
Net cash provided by (used in) investing activities	24,566	8,351	(19,641)	(24,566)	(11,290)	
Cash flows from financing:						
Repayments of commercial paper	-	(3,463,719)	-	-	(3,463,719)	
Proceeds from commercial paper	-	3,622,874	-	-	3,622,874	
Repayments of short-term borrowings	-	(560,000)	-	-	(560,000)	
Proceeds from short-term borrowings	-	485,000	-	-	485,000	
Customer deposits	-	(90,378)	-	-	(90,378)	
Dividends paid	(43,937)	-	-	-	(43,937)	
Proceeds from issuance of common stock	9,788	-	-	-	9,788	
Net intercompany advances	-	44,132	(68,698)	24,566	-	
Financing cash flows from discontinued operations	-	(47,535)	-	-	(47,535)	
Other, net	1,389	(9,495)	(41,518)	-	(49,624)	
Net cash used in financing activities	(32,760)	(19,121)	(110,216)	24,566	(137,531)	
Net decrease in cash	-	(20,966)	(463,201)	-	(484,167)	
Cash – beginning of period	-	165,118	756,720	-	921,838	
Cash – end of period	\$ -	\$ 144,152	\$ 293,519	\$ -	\$ 437,671	

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

RESULTS OF OPERATIONS

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

On August 12, 2008, we announced the signing of a definitive agreement to sell HRBFA to Ameriprise Financial, Inc. See additional discussion in note 13 to our condensed consolidated financial statements.

TAX SERVICES

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

Tax Services – Operating Results		(in 000s)	
Three Months Ended July 31,	2008	2007	
Service revenues:			
Tax preparation fees	\$ 29,432	\$ 24,924	
Other services	38,783	37,349	
	68,215	62,273	
Royalties	3,684	2,842	
Other	3,366	4,748	
Total revenues	<u>75,265</u>	<u>69,863</u>	
Cost of services:			
Compensation and benefits	44,197	46,140	
Occupancy	79,350	74,960	
Depreciation	8,019	8,160	
Other	47,677	55,165	
	179,243	184,425	
Cost of other revenues, selling, general and administrative	59,945	57,727	
Total expenses	<u>239,188</u>	<u>242,152</u>	
Pretax loss	<u><u>\$(163,923)</u></u>	<u><u>\$(172,289)</u></u>	

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

Tax Services' revenues increased \$5.4 million, or 7.7%, for the three months ended July 31, 2008 compared to the prior year. Tax preparation fees increased \$4.5 million, or 18.1%, primarily due to an increase of 14.2% in our U.S. retail clients served in company-owned offices.

Total expenses decreased \$3.0 million, or 1.2%, for the three months ended July 31, 2008. Cost of services decreased \$5.2 million, or 2.8%, from the prior year, as lower corporate shared services were partially offset by higher occupancy expenses. Occupancy expenses increased \$4.4 million, or 5.9%, primarily as a result of higher rent expenses due to a 1.9% increase in company-owned offices under lease and a 2.7% increase in the average rent. Other cost of services decreased \$7.5 million, or 13.6%, due primarily to a \$5.4 million reduction in corporate shared services, primarily related to fewer information technology projects.

The pretax loss for the three months ended July 31, 2008 was \$163.9 million, compared to a loss of \$172.3 million in the prior year.

BUSINESS SERVICES

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

Business Services – Operating Statistics		
Three Months Ended July 31,	2008	2007
Accounting, tax and business consulting:		
Chargeable hours	960,300	1,039,190
Chargeable hours per person	284	274
Net billed rate per hour	\$ 140	\$ 144
Average margin per person	\$ 18,564	\$ 19,225

Business Services – Operating Results		(in 000s)
Three Months Ended July 31,	2008	2007
Tax services	\$ 76,301	\$ 75,172
Business consulting	50,757	51,248
Accounting services	12,960	14,925
Capital markets	5,818	10,734
Leased employee revenue	18	11,371
Reimbursed expenses	4,205	5,848
Other	24,592	23,525
Total revenues	<u>174,651</u>	<u>192,823</u>
Compensation and benefits	97,757	114,655
Occupancy	18,660	17,862
Other	15,166	18,648
Cost of revenues	<u>131,583</u>	<u>151,165</u>
Amortization of intangible assets	3,419	3,626
Selling, general and administrative	39,944	39,938
Total expenses	<u>174,946</u>	<u>194,729</u>
Pretax loss	\$ (295)	\$ (1,906)

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

Business Services' revenues for the three months ended July 31, 2008 declined \$18.2 million, or 9.4% from the prior year.

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

Capital markets revenues decreased \$4.9 million, primarily due to a 38.0% decrease in revenue per transaction.

Total expenses decreased \$19.8 million, or 10.2%, from the prior year. Compensation and benefits decreased primarily due to the change in organizational structure with AmexTBS as discussed above. Other expenses declined \$3.5 million, or 18.7%, as a result of a \$1.6 million decline in reimbursed expenses.

The pretax loss for the three months ended July 31, 2008 was \$0.3 million compared to a loss of \$1.9 million in the prior year.

CONSUMER FINANCIAL SERVICES

This segment is engaged in offering brokerage services, along with investment planning and related financial advice through HRBFA and retail banking through HRB Bank.

HRBFA offers traditional brokerage services, as well as annuities, insurance, fee-based accounts, online account access, equity research and focus lists, model portfolios, asset allocation strategies, and other investment tools and information. On August 12, 2008, we announced the signing of a definitive agreement to sell HRBFA to Ameriprise Financial, Inc. See additional discussion in note 13 to our condensed consolidated financial statements.

HRB Bank offers traditional banking services including checking and savings accounts, lines of credit, individual retirement accounts, certificates of deposit and prepaid debit card accounts. HRBFA utilizes HRB Bank for certain FDIC-insured deposits for its clients.

Consumer Financial Services – Operating Statistics

Three Months Ended July 31,	2008	2007
Broker-dealer:		
Traditional brokerage accounts(1)	370,054	383,229
New traditional brokerage accounts funded by tax clients	3,299	3,311
Cross-service revenue as a percent of total production revenue(2)	19.3%	18.1%
Average assets per traditional brokerage account	\$ 81,194	\$ 84,775
Average margin balances (millions)	\$ 401	\$ 357
Average customer payable balances (millions)	\$ 482	\$ 560
Number of advisors	976	936
Banking:		
Efficiency ratio(3)	88%	37%
Annualized net interest margin(4)	3.57%	2.11%
Annualized pretax return on average assets(5)	(5.27)%	1.34%
Total assets (thousands)	\$1,039,397	\$1,336,705
Mortgage loans held for investment:		
Loan loss reserve as a % of mortgage loans	5.12%	0.37%
Delinquency rate	9.60%	3.43%

(1) Includes only accounts with a positive balance.

(2) Defined as revenue generated from referred customers divided by total production revenue.

(3) Defined as non-interest expense divided by revenue net of interest expense. See "Reconciliation of Non-GAAP Financial Information" at the end of Part I, Item 2.

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

(5) Defined as annualized pretax banking income divided by average bank assets. See "Reconciliation of Non-GAAP Financial Information" at the end of Part I, Item 2.

Consumer Financial Services – Operating Results		(in 000s)
Three Months Ended July 31,	2008	2007
Service revenues:		
Financial advisor production revenue	\$ 51,381	\$ 58,296
Other	14,118	18,067
	<u>65,499</u>	<u>76,363</u>
Net interest income:		
Margin lending	7,133	12,272
Banking activities	9,161	7,503
	<u>16,294</u>	<u>19,775</u>
Provision for loan loss reserves	(14,991)	(2,084)
Other	(742)	40
Total revenues(1)	<u>66,060</u>	<u>94,094</u>
Cost of services:		
Compensation and benefits	39,530	41,207
Occupancy	6,927	6,894
Other	11,914	4,810
	<u>58,371</u>	<u>52,911</u>
Amortization of intangible assets	-	9,156
Selling, general and administrative	25,425	25,821
Total expenses	<u>83,796</u>	<u>87,888</u>
Pretax income (loss)	<u>\$ (17,736)</u>	<u>\$ 6,206</u>
Supplemental information		
Revenues:(1)		
Broker-dealer	\$ 67,472	\$ 85,128
Bank	(1,412)	8,966
	<u>\$ 66,060</u>	<u>\$ 94,094</u>
Pretax income (loss):		
Broker-dealer	\$ (3,619)	\$ 1,364
Bank	(14,117)	4,842
	<u>\$ (17,736)</u>	<u>\$ 6,206</u>

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

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

Consumer Financial Services' revenues, net of interest expense and provision for loan loss reserves, for the three months ended July 31, 2008 decreased \$28.0 million, or 29.8%, over the prior year.

Financial advisor production revenue, which consists primarily of fees earned on assets under administration and commissions on client trades, declined \$6.9 million, or 11.9%, from the prior year due to lower closed-end fund revenues. The following table summarizes the key drivers of production revenue:

Three Months Ended July 31,	2008	2007
Client trades	232,180	242,087
Average revenue per trade	\$ 118.81	\$ 136.53
Ending balance of assets under administration (billions)	\$ 30.0	\$ 32.5
Annualized productivity per advisor	\$209,000	\$253,000

Net interest income on margin lending activities declined \$5.1 million, or 41.9%, due to declining interest rates. The Federal Funds rate declined by a total of 325 basis points since the second quarter of last year. As this rate declines, we reduce the rates on margin and other asset balances, and therefore, net interest income is reduced.

Net interest income on banking activities increased \$1.7 million from the prior year primarily due to a \$10.2 million decline in interest expense on deposits, partially offset by a \$9.2 million decline in interest income on mortgage loans held for investment. Interest expense and interest income are both declining due to lower interest rates and lower average balances in the corresponding liability or asset. Interest income is also declining due to an increase in non-accrual loans from \$20.4 million at July 31, 2007 to \$119.5 million at July 31, 2008. The following table summarizes the key drivers of net interest revenue on banking activities:

(dollars in 000s)				
Three Months Ended July 31,	Average Balance		Average Rate Earned (Paid)	
	2008	2007	2008	2007
Loans	\$994,301	\$ 1,339,049	5.50%	6.72%
Investments	79,154	85,235	2.62%	5.35%
Deposits	802,285	1,105,125	(2.00%)	(5.11%)

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

(dollars in 000s)						
As of	July 31, 2008			April 30, 2008		
	Outstanding Principal Balance	Loan Loss Allowance	% 30-Days Past Due	Outstanding Principal Balance	Loan Loss Allowance	% 30-Days Past Due
Purchased from affiliates	\$ 643,360		13.05%	\$ 734,658		16.30%
Purchased from third-parties	265,383		1.04%	269,982		1.90%
	<u>\$ 908,743</u>	<u>\$ 46,853</u>	<u>9.60%</u>	<u>\$ 1,004,640</u>	<u>\$ 45,401</u>	<u>11.71%</u>

We recorded a provision for loan losses on our mortgage loans held for investment of \$15.0 million during the current quarter, compared to \$2.1 million in the prior year. Our loan loss provision increased significantly as a result of declining residential home prices, and increasing delinquencies occurring in our portfolio. Our loan loss reserve as a percent of mortgage loans was 5.12%, or \$46.9 million, at July 31, 2008, compared to 4.49%, or \$45.4 million, at April 30, 2008.

In estimating our loan loss allowance, we stratify the loan portfolio based on our view of risk associated with various elements of the pool and assign estimated loss rates based on those risks. Loss rates are based primarily on historical experience and our assessment of economic and market conditions. Loss rates consider both the rate at which loans will become delinquent (frequency) and the amount of loss that will ultimately be realized upon occurrence of a liquidation of collateral (severity). At July 31, 2008 and April 30, 2008 our weighted average frequency assumption was 14%. Our weighted average severity assumption was approximately 30% at July 31, 2008 and 22% at April 30, 2008, and increased due to declining collateral values during the quarter. Loss severity assumptions are based on the principal balance of the mortgage loan and, because the average loan to value ratio for our portfolio was 76.3%, imply a greater decline in actual property values.

Mortgage loans held for investment includes loans originated by affiliates and purchased by HRB Bank. Those loans have experienced higher rates of delinquency than other loans in our portfolio and expose us to a higher risk of potential credit loss. Residential real estate markets are experiencing significant declines in property values and mortgage default rates are increasing. If adverse market trends continue, including trends within our portfolio specifically, we may be required to record additional loan loss provisions, and those losses may be significant.

When mortgage loans become 180 days delinquent we account for those loans as "in-substance foreclosures" and classify the outstanding principal balance as other real estate owned rather than mortgage loans held for investment and record them at fair value. Mortgage loans with a principal balance of \$65.8 million and a corresponding allowance balance of \$12.3 million, were transferred to other real estate owned during the quarter ended July 31, 2008. During the quarter we recorded an additional impairment charge on these balances totaling \$5.4 million reflecting declining collateral values.

Total expenses declined \$4.1 million, or 4.7%, from the prior year. Other cost of services increased \$7.1 million primarily due to higher expenses associated with the H&R Block Prepaid Emerald MasterCard® program.

Amortization of intangible assets decreased \$9.2 million as the related intangible assets were fully amortized in November 2007. The pretax loss for the three months ended July 31, 2008 was \$17.7 million compared to prior year income of \$6.2 million.

CORPORATE, ELIMINATIONS AND INCOME TAXES ON CONTINUING OPERATIONS

The pretax loss recorded in our corporate operations for the three months ended July 31, 2008 was \$32.7 million compared to \$15.6 million in the prior year. The increased loss is primarily due to \$7.2 million in incremental interest expense resulting from our corporate operations absorbing current year financing costs for all long-term debt. In the prior year, financing costs were primarily related to borrowings incurred to cover losses of our mortgage business, and were therefore reported in discontinued operations. We also recorded \$5.0 million in net impairments of residual interests in securitizations in the current year, and a \$4.5 million decline in investment income.

Our effective tax rate for continuing operations was 39.7% and 40.2% for the three months ended July 31, 2008 and 2007, respectively. Our effective tax rate decreased primarily due to changes in our estimated state tax rate.

DISCONTINUED OPERATIONS

Discontinued operations includes mortgage businesses historically engaged in the origination of non-prime and prime mortgage loans, the sale and securitization of mortgage loans and residual interests, and the servicing of non-prime loans. During fiscal year 2008, we terminated all origination activities and sold the loan servicing operations. Our current year discontinued operations reflect the wind-down of our mortgage loan origination business. Also included in the prior year are the results of three smaller lines of business previously reported in our Business Services segment. We will begin reporting operating results of HRBFA as discontinued during our quarter ending October 31, 2008.

The pretax loss of our discontinued operations for the three months ended July 31, 2008 was \$4.0 million compared to a loss of \$335.4 million in the prior year. The loss from discontinued operations for the prior year period included impairments of residual interests of \$49.6 million, losses relating to loan repurchase obligations of \$157.3 million, and losses on the sale of mortgage loans totaling \$57.4 million.

FINANCIAL CONDITION

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

CAPITAL RESOURCES & LIQUIDITY BY SEGMENT

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

Given the likely availability of a number of liquidity options, we believe, that in the absence of any unexpected developments, our existing sources of capital at July 31, 2008 are sufficient to meet our operating needs.

Cash From Operations. Cash used in operating activities for the first three months of fiscal year 2009 totaled \$316.3 million, compared with \$335.3 million for the same period last year. The change was due primarily to lower losses and reduced working capital requirements of our discontinued mortgage businesses.

Debt. We borrow under our unsecured committed lines of credit (CLOCs) to support working capital requirements primarily arising from off-season operating losses in our Tax Services and Business Services segments. We had no balance outstanding under our CLOCs at July 31, 2008, although we drew on the CLOCs in August 2008. See additional discussion in "Borrowings."

Issuance of Common Stock. We issue shares of common stock, in accordance with our stock-based compensation plans, out of treasury shares. Proceeds from the issuance of common stock totaled \$28.5 million and \$15.3 million for the three months ended July 31, 2008 and 2007, respectively.

Dividends. Dividends paid totaled \$46.8 million and \$43.9 million for the three months ended July 31, 2008 and 2007, respectively.
Share Repurchases. In June 2008, our Board of Directors rescinded the previous authorizations to repurchase shares of our common stock, and approved an authorization to purchase up to \$2.0 billion of our common stock over the next four years. We did not repurchase shares during the three months ended July 31, 2008, and do not expect to repurchase shares prior to our fourth quarter.

Restricted Cash. We hold certain cash balances that are restricted as to use. Cash and cash equivalents – restricted totaled \$221.3 million at July 31, 2008 compared to \$219.0 million at April 30, 2008. At July 31, 2008, Consumer Financial Services held \$219.0 million of this total segregated in a special reserve account for the exclusive benefit of its broker-dealer clients.

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

(in 000s)

	Tax Services	Business Services	Consumer Financial Services	Corporate	Consolidated H&R Block
Cash provided by (used in):					
Operations	\$ (257,431)	\$ 46,255	\$ 77,641	\$ (182,801)	\$ (316,336)
Investing	(9,062)	(7,376)	32,044	464	16,070
Financing	(17,782)	3,738	(38,057)	(18,480)	(70,581)
Net intercompany	287,564	(57,430)	(4,638)	(225,496)	-

Tax Services. Tax Services has historically been our largest provider of annual operating cash flows. The seasonal nature of Tax Services generally results in a large positive operating cash flow in our fourth quarter. Tax Services used \$257.4 million in its current three-month operations to cover off-season costs and working capital requirements. This segment used \$9.1 million in investing activities primarily related to capital expenditures, and used \$17.8 million in financing activities related to book overdrafts.

Business Services. Business Services funding requirements are largely related to receivables for completed work and “work in process.” We provide funding sufficient to cover their working capital needs. This segment provided \$46.3 million in operating cash flows during the first three months of the year, primarily due to collections on receivables. Business Services used \$7.4 million in investing activities primarily related to capital expenditures.

Consumer Financial Services. In the first three months of fiscal year 2009, Consumer Financial Services provided \$77.6 million in cash from its operating activities primarily due to the timing of cash deposits that are restricted for the benefit of its broker-dealer clients. The segment provided \$32.0 million in investing activities primarily from principal payments received on mortgage loans held for investment and used \$38.1 million in financing activities due to the repayment of \$25.0 million in Federal Home Loan Bank (FHLB) advances.

HRB Bank is a member of the FHLB of Des Moines, which extends credit to member banks based on eligible collateral. At July 31, 2008, HRB Bank had FHLB advance capacity of \$373.5 million, and there was \$104.0 million outstanding on this facility. Mortgage loans held for investment of \$917.3 million were pledged as collateral on these advances.

BORROWINGS

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

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

At July 31, 2008, we maintained \$2.0 billion in revolving credit facilities to support issuance of commercial paper and for general corporate purposes. These CLOCs, and borrowings thereunder, have a maturity date of August 2010 and an annual facility fee in a range of six to fifteen basis points per annum, based on our credit ratings. We had no balance outstanding as of July 31, 2008, although we did draw on the CLOCs in August 2008 to support working capital requirements primarily arising from off-season operating losses. The CLOCs, among other things, require we maintain at least \$650.0 million of net worth on the last day of any fiscal quarter. We had net worth of \$836.7 million at July 31, 2008.

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

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

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

REGULATORY ENVIRONMENT

HRBFA is subject to regulatory requirements intended to ensure the general financial soundness and liquidity of broker-dealers. At July 31, 2008, HRBFA's net capital of \$60.4 million, which was 14.4% of aggregate debit items, exceeded its minimum required net capital of \$8.4 million by \$52.0 million.

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

FORWARD-LOOKING INFORMATION

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

RECONCILIATION OF NON-GAAP FINANCIAL INFORMATION

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

Banking Ratios		(dollars in 000s)	
Three Months Ended July 31,	2008	2007	
Efficiency Ratio:			
Total Consumer Financial Services expenses	\$ 104,415	\$ 108,166	
Less: Interest and non-banking expenses	(91,594)	(104,043)	
Non-interest banking expenses	\$ 12,821	\$ 4,123	
Total Consumer Financial Services revenues	\$ 86,679	\$ 114,372	
Less: Non-banking revenues and interest expense	(72,033)	(103,323)	
Banking revenue – net of interest expense	\$ 14,646	\$ 11,049	
	88%	37%	
Net Interest Margin (annualized):			
Net banking interest income	\$ 9,161	\$ 7,503	
Net banking interest income (annualized)	\$ 36,644	\$ 30,012	
Divided by average bank earning assets	\$ 1,026,809	\$ 1,419,223	
	3.57%	2.11%	
Return on Average Assets (annualized):			
Pretax banking income (loss)	\$ (14,117)	\$ 4,842	
Pretax banking income (loss), annualized	\$ (56,468)	\$ 19,368	
Divided by average bank assets	\$ 1,071,044	\$ 1,442,299	
	(5.27%)	1.34%	

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Item 7A of our Annual Report on Form 10-K for fiscal year 2008 presents discussions of market risks that may impact our future results. The following should be read in conjunction with that discussion.

Sensitivity Analysis. The sensitivities of certain financial instruments to changes in interest rates as of July 31, 2008 are presented below. The following table represents hypothetical instantaneous and sustained parallel shifts in interest rates and should not be relied on as an indicator of future expected results.

	Carrying Value at	Basis Point Change						(in 000s)
	July 31, 2008	-300	-200	-100	+100	+200	+300	
Mortgage loans held for investment	\$868,603	\$37,057	\$27,088	\$19,077	\$(20,764)	\$(40,581)	\$(58,717)	
Residual interests in securitizations	8,466	5,916	3,782	1,698	(1,545)	(2,489)	(3,207)	

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

ITEM 4. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

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

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

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

PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The information below should be read in conjunction with the information included in note 9 to our condensed consolidated financial statements.

RAL Litigation. We reported in our Annual Report on Form 10-K for the year ended April 30, 2008, certain events and information pertaining to lawsuits regarding our refund anticipation loan programs (collectively, “RAL Cases”). The RAL Cases have involved a variety of legal theories asserted by plaintiffs. These theories include allegations that, among other things: disclosures in the RAL applications were inadequate, misleading and untimely; the RAL interest rates were usurious and unconscionable; we did not disclose that we would receive part of the finance charges paid by the customer for such loans; untrue, misleading or deceptive statements in marketing RALs; breach of state laws on credit service organizations; breach of contract, unjust enrichment, unfair and deceptive acts or practices; violations of the federal Racketeer Influenced and Corrupt Organizations Act; violations of the federal Fair Debt Collection Practices Act and unfair competition regarding debt collection activities; and that we owe, and breached, a fiduciary duty to our customers in connection with the RAL program.

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

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

Peace of Mind Litigation. We are defendants in lawsuits regarding our Peace of Mind program (collectively, the “POM Cases”). The POM Cases are described below.

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

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

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

Electronic Filing Litigation. We are a defendant in a class action filed on August 30, 2002 and entitled *Erin M. McNulty and Brian J. Erzar v. H&R Block, Inc., et al.*, Case No. 02-CIV-4654 in the Court of Common Pleas of Lackawanna County, Pennsylvania, in which the plaintiffs allege that the defendants deceptively portray electronic filing fees as a necessary and required component of standard tax preparation services and do not inform tax preparation clients that they may (1) file tax returns free of charge by mailing the returns, (2) electronically file tax returns from personal computers either free of charge or at significantly lower fees and (3) be eligible to electronically file tax returns free of charge via telephone. The plaintiffs seek unspecified damages and disgorgement of all electronic filing, tax preparation and related fees collected during the applicable class period. Class certification was granted in this case on September 5, 2007. In March 2008, we reached a tentative agreement to settle this case for an amount not to exceed \$2.5 million and have accrued \$1.5 million, representing our best estimate of ultimate loss. The settlement was preliminarily approved on June 27, 2008, with a final fairness hearing scheduled for September 2008.

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

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

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

We are unable to determine an estimate of the possible loss or range of loss, if any, in light of the early stages of the Express IRA litigation.

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

appeal on March 18, 2008, contending that the derivative action was improperly consolidated. The derivative action is *Iron Workers Local 16 Pension Fund v. H&R Block, et al.*, in the United States District Court for the Western District of Missouri, Case No. 06-cv-00466-ODS (instituted on June 8, 2006) and was brought against certain of our directors and officers purportedly on behalf of the Company. The derivative action alleges breach of fiduciary duty, abuse of control, gross mismanagement, waste, and unjust enrichment pertaining to (1) our restatement of financial results in fiscal year 2006 due to errors in determining our state effective income tax rate and (2) certain of our products and business activities. We believe the claims in these cases are without merit and intend to defend this litigation vigorously. We currently do not believe that we will incur a material loss with respect to this litigation.

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

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

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

On June 3, 2008, the Massachusetts Attorney General filed a lawsuit in the Superior Court of Suffolk County, Massachusetts (Case No. 08-2474-BLS) entitled *Commonwealth of Massachusetts v. H&R Block, Inc., et al.*, alleging unfair, deceptive and discriminatory origination and servicing of mortgage loans and seeks equitable relief, disgorgement of profits, restitution and statutory penalties. We believe the claims in this case are without merit, and we intend to defend this case vigorously, but there are no assurances as to its outcome. We are unable to determine an estimate of the possible loss or range of loss, if any, in light of the early stages of this litigation.

SCC also remains subject to potential claims for indemnification and loan repurchases pertaining to loans previously sold. In the current non-prime mortgage environment, it is likely that the frequency of repurchase and indemnification claims may increase over historical experience and give rise to additional litigation. In some instances, H&R Block, Inc. was required to guarantee SCC's obligations. The amounts involved in these potential claims may be substantial, and the ultimate resulting liability is difficult to predict. In the event of

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

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

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

ITEM 1A. RISK FACTORS

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

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES

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

(in 000s, except per share amounts)

	Total Number of Shares Purchased(1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(2)	Maximum \$ Value of Shares that May Be Purchased Under the Plans or Programs(2)
May 1 – May 31	6	\$ 22.85	-	\$ 2,000,000
June 1 – June 30	10	\$ 22.65	-	\$ 2,000,000
July 1 – July 31	174	\$ 21.53	-	\$ 2,000,000

(1) We purchased 190,301 shares in connection with the funding of employee income tax withholding obligations arising upon the exercise of stock options or the lapse of restrictions on nonvested shares.

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

ITEM 6. EXHIBITS

- 3.1 Amended and Restated Bylaws of H&R Block, Inc., as amended and restated as of June 11, 2008.
- 10.1 Employment Agreement dated July 19, 2008 between H&R Block Management LLC and Russell P. Smyth.
- 31.1 Certification by Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification by Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification by Chief Executive Officer furnished pursuant to 18 U.S.C. 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification by Chief Financial Officer furnished pursuant to 18 U.S.C. 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

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

H&R BLOCK, INC.

/s/ Russell P. Smyth

Russell P. Smyth
President and Chief Executive Officer
September 3, 2008

/s/ Becky S. Shulman

Becky S. Shulman
Senior Vice President, Treasurer and
Chief Financial Officer
September 3, 2008

/s/ Jeffrey T. Brown

Jeffrey T. Brown
Vice President and
Corporate Controller
September 3, 2008

AMENDED AND RESTATED
BYLAWS
OF
H & R BLOCK, INC.
(As amended through June 11, 2008)

OFFICES

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

SEAL

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

SHAREHOLDERS' MEETINGS

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

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

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

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

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

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

Only such business shall be conducted at the annual meeting as has been brought before the meeting in accordance with the procedures set forth in this section 4(b). The chairman of an annual meeting shall determine whether any proposal to bring business before the meeting was made in accordance with the provisions of this section 4(b) and is a proper subject for shareholder action pursuant to this section 4(b) and applicable law, and if proposed business is not in compliance with this section 4(b) or not a proper subject for shareholder action, to declare that such defective proposal be disregarded and not transacted. The chairman of the annual meeting shall have sole authority to decide questions of compliance with the foregoing procedures, and his or her ruling shall be final. This provision shall not prevent the consideration and approval or disapproval at the meeting of reports of officers, directors and committees of the Board of Directors; provided that no new business shall be acted upon at the meeting in connection with such reports unless stated, submitted and received as herein provided.

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

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

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

6. CONDUCT OF ANNUAL AND SPECIAL MEETINGS. The chairman of the board, or in his absence the chief executive officer or the president, shall preside as the chairman of the meeting at all meetings of the shareholders. The chairman of the meeting shall be vested with the power and authority to (i) maintain control of and conduct an orderly meeting; (ii) exclude any shareholder from the meeting for failing or refusing to comply with any of the procedural standards or rules or conduct or any reasonable request of the chairman; and (iii) appoint inspectors of elections, prescribing their duties, and administer any oath that may be required under Missouri law. The ruling of the presiding officer on any matter shall be final and exclusive. The presiding officer shall establish the order of business and such rules and procedures for conducting the meeting as in his or her sole and complete discretion he or she determines necessary, appropriate or convenient under the circumstances, including (without limitation) (i) an agenda or order of business for the meeting, (ii) rules and procedures for maintaining order at the meeting and the safety of those present, (iii) limitations on participation in such meeting to shareholders of record of the corporation and their duly authorized and constituted proxies and such other persons as the presiding officer shall permit, (iv) restrictions on entry to the meeting after the time fixed for commencement thereof, (v) limitations on the time allotted to questions or comments by participants and (vi) regulation of the voting or balloting as applicable, including (without limitation) matters that are to be voted on by ballot, if any. Unless and to the extent determined by the Board of Directors or the presiding officer, meetings of shareholders shall not be required to be held in accordance with rules of parliamentary procedure.

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

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

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

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

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

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

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

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

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

DIRECTORS

14. **NUMBER AND POWERS OF THE BOARD.** The property and business of this corporation shall be managed by a board of directors, and the number of directors to constitute the board shall be not less than nine nor more than fifteen, the exact number to be fixed by a resolution adopted by the affirmative vote of a majority of the whole board of directors, but shall be twelve until and unless so fixed. Directors need not be shareholders. In addition to the powers and authorities by these bylaws expressly conferred upon the board of directors, the board may exercise all such powers of the corporation and do or cause to be done all such lawful acts and things as are not prohibited, or required to be exercised or done by the shareholders only.

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

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

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

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

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

18. NOTICE. (a) Regular Meetings. Regular meetings of the board of directors may be held without notice at such place or places, within or without the State of Missouri, and at such time or times, as the board of directors may from time to time fix by resolution adopted by the whole board. Any business may be transacted at a regular meeting.

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

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

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

provided such director or directors are in attendance and do not waive the right to vote.

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

To be timely, a shareholder's notice shall be delivered to or mailed and received at the principal executive offices of the corporation not less than 45 days before the date in the year of the annual meeting corresponding to the date on which the corporation first mailed its proxy materials for the prior year's annual meeting of shareholders. Such shareholder's notice to the secretary shall set forth (a) as to each person whom the shareholder proposes to nominate for election or reelection as a director, such person's name, age, business address, residence address, and principal occupation or employment, the class and number of shares of capital stock of the corporation that are beneficially owned by such person, and any other information relating to such person that is required to be disclosed in solicitations for proxies for election of directors pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended; and (b) as to the shareholder giving the notice, such shareholder's name and record address and the class and number of shares of capital stock of the corporation that are beneficially owned by such shareholder. The corporation may require any proposed nominee to furnish such other information as may reasonably be required by the corporation to determine the eligibility of such proposed nominee to serve as a director of the corporation. No person shall be eligible for election as a director of the corporation unless nominated in accordance with the procedures set forth herein.

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

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

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

23. **INDEMNIFICATION OF DIRECTORS AND OFFICERS AND CONTRIBUTION.** (a) Scope of Indemnification. The corporation shall indemnify any director, and may indemnify any officer, of the corporation who was or is a party or witness, or is threatened

to be made a party or witness, to any threatened, pending or completed action, suit or proceeding (including, without limitation, an action, suit or proceeding by or in the right of the corporation), whether civil, criminal, administrative or investigative (including a grand jury proceeding), by reason of the fact that the person is or was (i) a director or officer of the corporation or (ii) serving at the request of the corporation, as a director, officer, employee, agent, partner or trustee (or in any similar position) of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise, to the fullest extent authorized or permitted by the Missouri General and Business Corporation Law and any other applicable law, as the same exists or may hereinafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits the corporation to provide broader indemnification rights than said law permitted the corporation to provide prior to such amendment), against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by the person in connection with such action, suit or proceeding, or in connection with any appeal thereof; *provided, however*, that, except as provided in section 23(b) with respect to proceedings to enforce rights to indemnification, the corporation shall indemnify any person in connection with an action, suit or proceeding (or part thereof) initiated by such person only if the initiation of such action, suit or proceeding (or part thereof) was authorized by the board of directors. Any right to indemnification hereunder shall include the right to payment by the corporation of expenses incurred in connection with any such action, suit or proceeding in advance of its final disposition; *provided, however*, that any payment of such expenses incurred by a director or officer in advance of the final disposition of such action, suit or proceeding shall be made only upon delivery to the corporation of an undertaking, by or on behalf of such director or officer, to repay all amounts so advanced unless it should be determined ultimately that such director or officer is entitled to be indemnified under this section or otherwise.

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

that the claimant has not met such applicable standard of conduct, shall be a defense to the action or create a presumption that the claimant has not met the applicable standard of conduct.

(c) Nonexclusivity, Duration and Indemnification Agreements. The indemnification and advancement of expenses provided by, or granted pursuant to, this section shall not be deemed exclusive of any other rights to which those seeking indemnification or advancement of expenses may be entitled either under the Articles of Incorporation or any other bylaw, agreement, vote of shareholders or disinterested directors or otherwise, both as to action in the person's official capacity and as to action in another capacity while holding such office, and shall continue as to a person who has ceased to be a director or officer, and shall inure to the benefit of the heirs, executors and administrators of such person. Any repeal or modification of the provisions of this section 23 shall not affect any obligations of the corporation or any rights regarding indemnification and advancement of expenses of a director or officer with respect to any threatened, pending or completed action, suit or proceeding in which the alleged cause of action accrued at any time prior to such repeal or modification. Upon approval of a majority of a quorum of disinterested directors, the corporation may enter into indemnification agreements with officers and directors of the corporation, or extend indemnification to officers, employees or agents of the corporation, upon such terms and conditions as may be deemed appropriate.

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

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

(f) Contribution. In order to provide for just and equitable contribution in circumstances in which the indemnification provided for in this section is held by a court of competent jurisdiction to be unavailable in whole or part to a director, the corporation shall contribute to the payment of the indemnitee's losses that would have been so indemnified in an amount that is just and equitable in the circumstances, taking into account, among other things, contributions by other directors of the corporation pursuant to indemnification agreements or otherwise. In the absence of personal enrichment of indemnitee, or acts of intentional fraud or dishonest or criminal conduct on the part of indemnitee, it would not be just and equitable for indemnitee to contribute to the payment of losses arising out of an

action, suit or proceeding in an amount greater than: (i) in a case where indemnitee is a director of the corporation or any of its subsidiaries but not an officer of either, the amount of fees paid to indemnitee for serving as a director during the 12 months preceding the commencement of such action, suit or proceeding, or (ii) in a case where indemnitee is a director of the corporation or any of its subsidiaries and is an officer of either, the amount set forth in clause (i) plus 5 percent of the aggregate cash compensation paid to indemnitee for serving as such officer(s) during the 12 months preceding the commencement of such action, suit or proceeding. The corporation shall contribute to the payment of losses covered hereby to the extent not payable by the indemnitee pursuant to the contribution provisions set forth in the preceding sentence.

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

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

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

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

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

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

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

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

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

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

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

(d) Appointment Of Officers And Agents — Terms of Office. The board from time to

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

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

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

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

31. THE CHAIRMAN OF THE BOARD, THE VICE CHAIRMAN OF THE BOARD, THE CHIEF EXECUTIVE OFFICER AND THE PRESIDENT. The chairman of the board or the president shall be elected by the board of directors to be the chief executive officer of the corporation, or the board of directors may elect a chief executive officer who is not the chairman of the board or the president, and the chief executive officer shall have general and active management of the business of the corporation and shall carry into effect all directions and resolutions of the board. The chairman of the board, the vice chairman of the board, the chief executive officer and the president shall be vested with such powers, duties, and authority as the board of directors may from time to time determine and as may be set forth in these bylaws. Except as otherwise provided for in these bylaws, the chairman of the board, or in his absence, the chief executive officer or president, shall preside at all meetings of the shareholders of the corporation and at all meetings of the board of directors.

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

law such instruments are required to be executed only by the president, he shall execute them.

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

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

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

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

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

The secretary shall have the principal responsibility to give, or cause to be given, notice of all meetings of the shareholders and of the board of directors, but this shall not lessen the authority of others to give such notice as is authorized elsewhere in these bylaws.

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

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

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

chairman of the board, chief executive officer or the president, under whose direct supervision he shall be.

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

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

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

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

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

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

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

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

SHARES OF STOCK

36. CERTIFICATES OF STOCK. The certificates for shares of stock of the corporation shall be numbered, shall be in such form as may be prescribed by the board of directors in conformity with law, and shall be entered into the stock books of the corporation as they are issued, and such entries shall show the name and address of the person, firm, partnership, corporation or association to whom each certificate is issued.

Each certificate shall have printed, typed or written thereon the name of the person, firm, partnership, corporation or association to whom it is issued, and number of shares represented thereby and shall be signed by the president or a vice president, and the treasurer or an assistant treasurer or the secretary or an assistant secretary of the corporation, and sealed with the seal of the corporation, which seal may be facsimile, engraved or printed. If the corporation has a registrar, a transfer agent, or a transfer clerk who actually signs such certificates, the signatures of any of the other officers above mentioned may be facsimile, engraved or printed. In case any such officer who has signed or whose facsimile signature has been placed upon any such certificate shall have ceased to be such officer before such certificate is issued, such certificate may nevertheless be issued by the corporation with the same effect as if such officer were an officer at the date of its issue.

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

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

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

GENERAL

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

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

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

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

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

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

44. FISCAL YEAR. The board of directors may fix and from time to time change the fiscal year of the corporation. In the absence of action by the board of directors, the fiscal

year shall end each year on the same date which the officers of the corporation elect for the close of its first fiscal period.

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

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

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

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

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (this "*Agreement*") is entered into as of July 19, 2008, by and between H&R Block Management, LLC, a Delaware limited liability company (the "*Company*"), and Russell P. Smyth ("*Executive*").

WHEREAS, Executive is willing to serve the Company, and the Company is willing to employ Executive, on the terms and conditions set forth below.

NOW, THEREFORE, in consideration of the mutual promises contained herein and of other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, it is hereby agreed as follows:

ARTICLE ONE

EMPLOYMENT

1.01 **Agreement as to Employment; Title; Employment Period.** The Company hereby agrees to employ Executive to serve in the capacity of President and Chief Executive Officer of H&R Block, Inc., a Missouri corporation ("*Block*") and the indirect parent corporation of the Company, and Executive hereby accepts such employment by the Company, subject to the terms of this Agreement, for the period commencing on August 1, 2008 (the "*Employment Commencement Date*") and ending on July 31, 2011 (the "*Employment Period*"). After the expiration of the Employment Period, and provided that this Agreement is not extended or superseded by the mutual written consent of the parties, the provisions of Section 1.07 (relating to stock ownership requirements) and Articles Two through Five of this Agreement shall survive the expiration of the Employment Period and continue to be in effect to the extent applicable.

1.02 **Duties; Board Membership; Performance and Other Activities.**

(a) **Duties.** During the Employment Period, Executive will have the duties, authorities and responsibilities commensurate with the duties, authorities and responsibilities of chief executive officers in similarly sized companies, and such other duties, authorities and responsibilities as the Board of Directors of Block (the "*Block Board*") designates from time to time that are not inconsistent with Executive's position. Executive will report directly to the Block Board.

(b) **Board Membership.** The Block Board shall take such action as may be necessary to appoint or elect Executive as a member of the Block Board as of the Employment Commencement Date. Thereafter, during the Employment Period, the Block Board shall nominate Executive for re-election as a member of the Block Board at the expiration of the then current term, provided that the foregoing shall not be required to the extent prohibited by legal or regulatory requirements. At no time while Executive is employed by the Company shall Executive serve as Chairman of the Block Board.

(c) **Performance and Other Activities.** So long as Executive is employed under this Agreement, Executive agrees to devote Executive's full business time and efforts exclusively on behalf of the Company and to competently and diligently discharge Executive's duties

hereunder, provided that the foregoing shall not prevent Executive from (i) serving on the boards of directors of non-profit organizations and, with the prior written approval of the Block Board, one for profit public company, (ii) participating in charitable, civic, educational, professional, community or industry affairs, although any speaking engagements must be on behalf of Block and Executive may not receive any remuneration for such speaking engagements and (iii) managing his and his family's passive personal investments, so long as such activities in the aggregate do not interfere or conflict with Executive's full-time employment hereunder and do not violate the other provisions of this Agreement or the H&R Block, Inc. Code of Business Ethics & Conduct, which Executive acknowledges having read and understood. Executive will comply fully with all reasonable policies of the Company as are from time to time in effect and applicable to Executive's position. Notwithstanding anything to the contrary in this Section 1.02(c), service on the two non-public, for profit boards of directors disclosed by Executive to the Company on which he is serving as of the date of this Agreement are hereby approved, except that it is agreed that Executive will use his best efforts to resign from one of those boards of directors by the first anniversary of the Employment Commencement Date.

1.03 Compensation.

(a) ***Base Salary.*** During the Employment Period, the Company will pay to Executive a gross salary at an annual rate of \$950,000 ("*Base Salary*"), payable semimonthly or at any other pay periods as the Company may use for its other executive-level employees. The Base Salary will be reviewed for potential increase, no less often than annually during the Employment Period, and may only be decreased as part of an across-the-board salary reduction that applies in the same manner to all executive-level employees. The Base Salary, as it may be adjusted from time to time, shall constitute the "*Base Salary*" for purposes of this Agreement.

(b) ***Short-Term Incentive Compensation.*** Executive shall participate in Block's short-term incentive program (which for certain highly compensated executives may include the H&R Block, Inc. Executive Performance Plan) (the "*Program*") as applicable to executives of the Company for its fiscal year 2009 (which ends April 30, 2009) and fiscal years thereafter. Under such Program, Executive shall have an aggregate target incentive award equal to 110% of Base Salary and an opportunity to earn a bonus at a maximum of 220% of Base Salary (prorated as described below). Notwithstanding the foregoing, under the Program for fiscal year 2009, Executive shall receive a minimum guaranteed short-term incentive compensation award equal to at least 110% of Base Salary, prorated based upon Executive's actual Base Salary paid for the fiscal year (the "*Minimum Guarantee*"). Other than the payment of the Minimum Guarantee, the payment of any award under the Program shall be based upon the achievement of one or more pre-established performance goals which shall be determined by the Compensation Committee of the Block Board, provided that Executive must remain employed through the end of the applicable fiscal year to receive any payments under the Program. Such incentive compensation, including the Minimum Guarantee, shall be paid to Executive following the completion of the fiscal year when the short-term incentive compensation is paid to other executive-level employees of the Company, which in any event shall be no later than two and one-half months after the end of the fiscal year to which it relates (or as soon thereafter as it can be properly determined).

(c) **Initial Stock Option Grant.** The Compensation Committee of the Block Board shall grant Executive a nonqualified stock option (the “Option”) to purchase 900,000 shares of Block’s common stock, without par value (the “Block Common Stock”) on or as soon as practicable, but in no event later than 30 days, following the Employment Commencement Date. The Option shall be granted pursuant to, and shall be subject to, the terms and conditions of Block’s 2003 Long-Term Executive Compensation Plan, as amended (the “2003 Plan”), and the Company’s standard stock option agreement, with the following terms:

(i) **Exercise Price.** The Option shall be exercisable at the following prices:

# of Shares Subject to Option	Exercise Price
500,000	The closing price for Block Common Stock on the New York Stock Exchange on the date of grant (the “FMV”)
100,000	FMV plus \$3 (but in no event less than \$25)
100,000	FMV plus \$6 (but in no event less than \$28)
100,000	FMV plus \$9 (but in no event less than \$31)
100,000	FMV plus \$12 (but in no event less than \$34)

(ii) **Vesting Schedule.** Subject to accelerated vesting as set forth in this Agreement, the Option will vest and become exercisable as to one-third of the shares subject to each exercise price on each anniversary of the grant date (rounded down to the nearest whole number of shares for each vesting date, except that the amount vesting on the final vesting date shall be such that 100% of the aggregate number of shares of Block Common Stock subject to the Option shall be cumulatively vested as of the final vesting date), provided that Executive remains continuously employed by the Company through each vesting date.

(iii) **Option Term.** The Option is for a term of 10 years from the date of grant, subject to earlier termination as provided in the 2003 Plan and the underlying stock option agreement and in this Agreement.

(d) **Ongoing Equity Grants.** In addition to the Option contemplated under this Section 1.03, when annual equity awards are granted to executives of Block generally, Executive shall be awarded additional grants of compensatory equity awards at a level commensurate with his position and performance, as determined by the Compensation Committee of the Block Board.

1.04 **Relocation.**

(a) **Relocation Benefits.** Executive shall promptly relocate to the vicinity of Block’s principal U.S. headquarters. In accordance with Block’s Executive Relocation Program, the Company shall provide Executive with a relocation package commensurate with his position and will pay or reimburse Executive for the reasonable moving and relocation expenses and costs actually incurred by Executive in relocating to the Greater Kansas City Area, subject to the limitations and procedures set forth in Block’s Executive Relocation Program. During the period prior to his relocation (but in no event for more than three months following the Employment

Commencement Date), the Company shall provide suitable temporary housing for Executive's use when he is at Block's principal U.S. headquarters. In addition, the Company shall reimburse Executive for the reasonable cost of two house hunting trips (to the extent not otherwise covered by Block's Executive Relocation Program) for Executive and his family not to exceed \$10,000 in the aggregate. All amounts payable under this Section 1.04(a) shall be subject to Executive's presentment to the Company of appropriate documentation. To the extent that Executive incurs taxable income related to any relocation benefits paid or provided pursuant to this Section 1.04(a) of this Agreement, the Company will pay to Executive such additional amount as is necessary to "gross up" such benefits and cover the anticipated income tax liability resulting from such taxable income.

(b) **Cash Relocation Payment.** The Company shall pay Executive a lump-sum cash relocation payment of \$200,000 on the Employment Commencement Date to cover expenses not otherwise covered by Block's Executive Relocation Program.

1.05 **Business Expenses.** Upon presentment to the Company of appropriate documentation, the Company will promptly pay directly, or reimburse Executive for, all business expenses, to the extent such expenses are paid or incurred by Executive during the Employment Period in accordance with the Company's policy in effect from time to time and to the extent such expenses are reasonable and necessary to the conduct by Executive of the Company's business. Upon presentation to the Company of appropriate documentation, the Company shall also pay directly, or reimburse Executive for, the reasonable legal fees actually incurred in connection with the negotiation and documentation of this Agreement, up to a maximum of \$30,000.

1.06 **Employee Benefits.** During the Employment Period, and subject to the discretionary authority given to the applicable benefit plan administrators, the Company will make available to Executive insurance, sick leave, deferred compensation, vacation and other like benefits no less favorable than as approved and provided from time to time to the other executive-level employees of the Company. Coverage and eligibility for any such benefits are subject to the terms of the various plans as they may be amended from time to time pursuant to their respective terms. Executive will not have access to the company aircraft for personal use.

1.07 **Stock Ownership Requirements.** While employed by the Company, Executive shall not sell shares of Block Common Stock until Executive is holding shares of Block Common Stock (determined in accordance with the forms of ownership recognized under Block's stock ownership guidelines for executive-level employees of the Company as in effect from time to time) with a value equal to at least five times Executive's Base Salary (although there is no specific timetable for reaching such share retention threshold). In addition, after Executive has accumulated the required amount of shares of Block Common Stock, while employed by the Company, Executive must also hold 100% of the shares of Block Common Stock subsequently acquired (net of taxes and, if applicable, exercise price) pursuant to any compensatory equity award for a minimum of one year from the date of acquisition (whether through exercise of stock options or vesting of any other stock-based award, as applicable).

ARTICLE TWO

TERMINATION OF EMPLOYMENT

2.01 Termination of Employment.

(a) ***No Reason Required.*** The Company or Executive may terminate Executive's employment and the Employment Period at any time for any reason, or for no reason, subject to compliance with Section 2.01 (c).

(b) ***Related Definitions.***

(i) ***"Cause"*** means any of the following unless, if capable of cure, such events are fully corrected in all material respects by Executive within 10 days after the Company gives a Termination Notice:

(A) Executive's misconduct that materially interferes with or materially prejudices the proper conduct of the business of Block, the Company and/or any direct or indirect subsidiary of Block (each such other subsidiary an "*Affiliate*") or which may reasonably result in harm to the reputation of Block, the Company and/or any Affiliate; or

(B) Executive's commission of an act materially and demonstrably detrimental to the good will of Block, the Company and/or any Affiliate, which act constitutes gross negligence or willful misconduct by Executive in the performance of Executive's material duties to Block, the Company and/or such Affiliate; or

(C) Executive's commission of any act of dishonesty or breach of trust resulting or intending to result in material personal gain or enrichment of Executive at the expense of Block, the Company and/or any Affiliate; or

(D) Executive's violation of Article Three or Section 4.02, 4.03, 4.05 or 4.06 of this Agreement; or

(E) Executive's conviction of, *or plea of nolo contendere* to, a misdemeanor involving an act of moral turpitude or a felony.

If the Company does not give Executive a Termination Notice (as described in Section 2.01(c)) within 60 days after the Block Board or the Chairman of the Block Board has knowledge that an event constituting Cause has occurred, the event will no longer constitute Cause. The Company may place Executive on unpaid leave for up to 30 consecutive days while it is determining whether there is a basis to terminate Executive's employment for Cause. This leave will not constitute Good Reason.

For purposes of this definition, (1) no act or omission by Executive will be "willful" unless it is made by Executive in bad faith or without a reasonable belief that Executive's act or omission furthered the interests of the Company, Block and/or the Affiliates and (b) any act or

omission by Executive based on authority given pursuant to a resolution duly adopted by the Block Board will be deemed made in good faith and in the best interests of the Company, Block and/or the Affiliates.

(ii) ***“Change in Control”*** means:

(A) the acquisition, other than from Block, by any individual, entity or group (within the meaning of Section 13(d) (3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the *“Exchange Act”*)), of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 35% or more of the then outstanding voting securities of Block entitled to vote generally in the election of directors, but excluding, for this purpose, (i) any such acquisition by Block or any of its subsidiaries, or any employee benefit plan (or related trust) of Block or its subsidiaries, (ii) any corporation with respect to which, following such acquisition, more than 50% of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors is then beneficially owned, directly or indirectly, by all or substantially all of the shareholders who were the beneficial owners of the voting securities of Block immediately prior to such acquisition in substantially the same proportion as their ownership, immediately prior to such acquisition, of the then outstanding voting securities of Block entitled to vote generally in the election of directors, (iii) pursuant to any acquisition by Executive or any group of persons including Executive, or (iv) by any underwriter temporarily holding securities pursuant to an offering of such securities; or

(B) during any 12-month period, individuals who, as of the date hereof, constitute the Block Board (the *“Incumbent Board”*) cease for any reason to constitute at least a majority of the Block Board, provided that any individual or individuals becoming a director subsequent to the date hereof, whose election, or nomination for election by Block’s shareholders, was approved by a vote of at least two-thirds of the Block Board (or nominating committee of the Block Board) will be considered as though such individual were a member or members of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of the directors of Block (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act); or

(C) the completion of a reorganization, merger or consolidation of Block, in each case, unless following such reorganization, merger or consolidation, the shareholders who were the beneficial owners of the voting securities of Block immediately prior to such reorganization, merger or consolidation continue to beneficially own, directly or indirectly, more than 50% of the then outstanding voting securities entitled to vote generally in the election of directors of the corporation resulting from such reorganization, merger or consolidation in substantially the same proportion as their ownership, immediately prior to such reorganization, merger or consolidation, of the voting securities of Block entitled to vote generally in the election of directors; or

(D) a complete liquidation or dissolution of Block or the consummation of a sale or other disposition of all or substantially all of the assets of Block to an entity that is not an affiliate of Block.

(iii) **“Disability”** means Executive’s absence from Executive’s responsibilities with the Company on a full-time basis for 130 business days in any consecutive 12 months as a result of incapacity due to mental or physical illness or injury. If the Company determines in good faith that Executive’s Disability has occurred, it may give Executive a Termination Notice. If within 30 days of the Termination Notice Executive does not return to full-time performance of Executive’s responsibilities, Executive’s employment will terminate. If Executive does return to full-time performance in that 30-day period, the Termination Notice will be cancelled for all purposes of this Agreement. Except as provided in this Section 2.01(b)(iii), Executive’s incapacity due to mental or physical illness or injury will not affect the Company’s obligations under this Agreement (including that such illness or injury will not constitute a basis for Cause).

(iv) **“Good Reason”** means any of the following events, without the express written consent of Executive, unless such events are fully corrected in all material respects by the Company within 30 days after Executive gives a Termination Notice:

(A) A material diminution in Executive’s base compensation;

(B) A material diminution in Executive’s authority, duties, or responsibilities as President and Chief Executive Officer of Block, reporting directly to the Block Board (but, if Block becomes a subsidiary of another entity, “Block Board” shall be deemed to refer to the board of directors (or other governing body) of the ultimate parent entity of Block); or

(C) A material change in the geographic location at which Executive must perform the services; or

(D) Any other action or inaction that constitutes a material breach by the Company of this Agreement.

If Executive does not give a Termination Notice within 60 days after Executive has knowledge that an event constituting Good Reason has occurred, the event will no longer constitute Good Reason.

(c) Advance Notice Generally Required.

(i) To terminate Executive’s employment, either Executive or the Company must provide a Termination Notice to the other. A **“Termination Notice”** is a written notice that states the specific provision of this Agreement on which termination is based, including, if applicable, the specific clause of the definition of Cause or Good Reason and a reasonably detailed description of the facts that permit termination under that clause; provided that the failure to include any fact in a Termination Notice that contributes to a showing of Cause or Good Reason does not preclude either party from asserting that fact in enforcing its rights under this Agreement.

(ii) Executive and the Company agree to provide the Termination Notice at least 60 days in advance of any termination, unless (A) Executive's employment is terminated by the Company for Cause or because of Executive's death, in which case the termination may be effective immediately, or (b) Executive's employment is terminated because of Executive's Disability, in which case the provisions of Section 2.01(b)(iii) shall apply. If Executive dies or becomes Disabled after Executive provides a valid Termination Notice with Good Reason or the Company provides Termination Notice without Cause, Executive's termination will be treated as a termination with Good Reason, effective as of the date of Executive's death or Disability. If Executive provides a Termination Notice, the Company may, in its sole discretion, relieve Executive of his duties, responsibilities and title during the period prior to Executive's termination date; provided, however, that during such period Executive shall remain an employee of the Company with the same compensation and benefit arrangements as in place immediately prior to Executive's delivery of the Termination Notice.

2.02 Obligations of the Company upon Termination.

(a) ***Other than For Cause; For Good Reason.*** If, at any time on or before July 31, 2014 (the "*Protected Period*"), the Company shall terminate Executive's employment other than for Cause or Disability, or Executive shall terminate employment for Good Reason, the Company shall have no further obligations to Executive other than:

(i) A lump sum cash payment equal to \$1.5 million;

(ii) All outstanding equity awards (other than performance shares) that would have vested during the 12-month period following the date of termination (if any) will immediately vest and any vested stock options (whether vested prior to the date of termination or pursuant to this Section 2.02(a)(ii)) will remain exercisable for 12 months after the end of Executive's employment (or, if earlier, until they would have expired but for Executive's termination);

(iii) A pro-rata award of any performance shares outstanding on the date of termination based on the achievement of the performance goals at the end of the applicable performance period and paid promptly after the end of the applicable performance period, which in any event shall be no later than two and one-half months after the end of the last fiscal year of the performance period to which it relates (or as soon thereafter as it can be properly determined) (a "*Pro-Rata Performance Share Award*");

(iv) Subject to Executive's timely election of continuation coverage under the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("*COBRA*") and Executive's continued co-payment of premiums at the same level and cost to Executive as if he were an employee of the Company (excluding, for purposes of calculating cost, an employee's ability to pay premiums with pre-tax dollars), continued participation in the Company's group health plan for Executive and Executive's eligible dependents covered by such plan as of the date of termination for a period of 12 months, provided that Executive remains eligible for COBRA continuation coverage and provided, further,

that if Executive obtains group health benefits through subsequent employment, such continuation of coverage by the Company under this Section 2.02(a)(iv) shall immediately cease (the “*Continuation Coverage*”); and

(v) to the extent not theretofore paid or provided, the Company shall timely pay or provide to Executive (A) any unpaid Base Salary through the date of termination, (B) any accrued but unused vacation in accordance with company policy, (C) reimbursement for any unreimbursed business expenses incurred through the date of termination, and (D) any other amounts or benefits required to be paid or provided or which Executive is eligible to receive under any plan, program, policy or practice or other contract or agreement of Block, the Company and/or the Affiliates through the date of termination (such other amounts and benefits shall be hereinafter referred to as the “*Other Benefits*”).

(b) **Other than For Cause or For Good Reason Following a Change in Control.** If (x) a Change in Control occurs during the Protected Period and (y) during the two-year period commencing on the date of a Change in Control (but in no event beyond the end of the Protected Period), the Company shall terminate Executive’s employment other than for Cause or Disability, or Executive shall terminate employment for Good Reason, in lieu of the payments and benefits provided under Section 2.02(a), the Company shall have no further obligations to Executive other than:

(i) A lump sum cash payment equal to two times the sum of Executive’s Base Salary and target short-term incentive compensation for the year in which the date of termination occurs;

(ii) All outstanding equity awards (other than performance shares) will immediately vest and any vested stock options (whether vested prior to the date of termination or pursuant to this Section 2.02(b)(ii)) will remain exercisable for 12 months after the end of Executive’s employment (or, if earlier, until they would have expired but for Executive’s termination);

(iii) A Pro-Rata Performance Share Award;

(iv) Continuation Coverage; and

(v) Other Benefits.

(c) **Death; Disability; For Cause; Other than for Good Reason.** If, during the Protected Period, Executive’s employment shall terminate on account of death or Disability or if the Company shall terminate Executive’s employment for Cause or Executive terminates his employment without Good Reason, the Company shall have no further obligations to Executive other than to provide Executive (or, in the event of his death, his estate) the Other Benefits.

(d) **Timing of Benefits.** The payments and benefits provided in this Section 2.02 will be paid or provided at the end of Executive’s employment, and any cash payments owed Executive under Section 2.02(a)(i) or 2.02(b)(i) will be paid on the 30th day following the date of termination.

2.03 **Condition.** The Company will not be required to make the payments and provide the benefits stated in Section 2.02 (other than the Other Benefits) unless Executive executes and delivers to the Company (and does not revoke) a general release of claims in favor of Block, the Company and the Affiliates and their respective past or present officers, directors, employees or agents. This agreement will be in such form as reasonably requested by the Company.

2.04 **Resignations.** Upon any termination of Executive's employment with the Company for any reason, Executive agrees to promptly resign as a director of Block and from any other offices, directorships, trusteeships, committee memberships and fiduciary capacities held with, or on behalf of, Block, the Company and/or any Affiliate. Executive shall promptly execute any further documentation thereof as requested by the Company and, if Executive is to receive any payments from the Company (including, without limitation, those set forth in Section 2.02 above), execution of such further documentation shall be a condition thereof (other than the Other Benefits).

2.05 **No Duplication of Benefits.** Any termination payments made and benefits provided under this Agreement to Executive shall be in lieu of any termination or severance payments or benefits for which Executive may be eligible under any of the plans, policies or programs of Block, the Company and/or any Affiliate or under the Worker Adjustment Retraining Notification Act of 1988 or any similar state statute or regulation.

ARTICLE THREE

CONFIDENTIALITY

3.01 **Background and Relationship of Parties.** The parties hereto acknowledge (for all purposes including, without limitation, Articles Three and Four of this Agreement) that Block, the Company and/or the Affiliates have been and will be engaged in a continuous program of acquisition and development respecting their businesses, present and future, and that, in connection with Executive's employment by the Company, Executive will be expected to have access to all information of value to Block, the Company and/or the Affiliates and that Executive's employment creates a relationship of confidence and trust between Executive and Block, the Company and the Affiliates with respect to any information applicable to the businesses of Block, the Company and/or the Affiliates. Executive will possess or have unfettered access to information that has been created, developed, or acquired by Block, the Company and/or the Affiliates or otherwise become known to Block, the Company and/or the Affiliates and which has commercial value in the businesses in which Block, the Company and/or the Affiliates have been and will be engaged and has not been publicly disclosed by Block, the Company and/or the Affiliates. All information described above is hereinafter called "*Proprietary Information.*" By way of illustration, but not limitation, Proprietary Information includes trade secrets, customer lists and information, employee lists and information, developments, systems, designs, software, databases, know-how, marketing plans, product information, business and financial information and plans, strategies, forecasts, new products and services, financial statements, budgets, projections, prices, and acquisition and disposition plans. Proprietary Information does not include any portions of such information which are now or hereafter made public by third parties in a lawful manner or made public by parties hereto without violation of this Agreement.

3.02 Proprietary Information is Property of Block.

(a) All Proprietary Information is the sole property of Block, the Company and/or the applicable Affiliate and its assigns, and Block, the Company and/or the applicable Affiliate is the sole owner of all patents, copyrights, trademarks, names, and other rights in connection therewith and without regard to whether Block, the Company and/or any Affiliate is at any particular time developing or marketing the same. Executive hereby assigns to Block, the Company and/or the Affiliate any rights Executive may have or may acquire in such Proprietary Information. At all times during and after Executive's employment with the Company, Executive will keep in strictest confidence and trust all Proprietary Information and Executive will not use or disclose any Proprietary Information without the written consent of Block, except as may be necessary in the ordinary course of performing duties as an employee of the Company or as may be required by law or the order of any court or governmental authority (provided that Executive provides Block, the Company and/or the Affiliate with prior written notice of the contemplated disclosure and cooperates with Block, the Company and/or the Affiliate in seeking a protective order or other appropriate protection of such information).

(b) In the event of any termination of Executive's employment hereunder (or at any time prior thereto at the Company's request), Executive will promptly deliver to the Company all copies of all documents, notes, drawings, programs, software, specifications, documentation, data, Proprietary Information, and other materials and property of any nature belonging to Block, the Company and/or any Affiliate and obtained during the course of Executive's employment with the Company. In addition, upon such termination, Executive will not remove from the premises of Block, the Company and/or any Affiliate any of the foregoing or any reproduction of any of the foregoing or any Proprietary Information that is embodied in a tangible medium of expression.

ARTICLE FOUR

RESTRICTIVE COVENANTS

4.01 **General.** The parties hereto acknowledge that, during the course of Executive's employment by the Company, Executive will have access to information valuable to the Company, Block and the Affiliates concerning the employees of Block, the Company and the Affiliates ("*Block Employees*") and, in addition to Executive's access to such information, Executive may, during (and in the course of) Executive's employment by the Company, develop relationships with such Block Employees whereby information valuable to Block, the Company and the Affiliates concerning Block Employees was acquired by Executive. Such information includes, without limitation: the identity, skills, and performance levels of Block Employees, as well as compensation and benefits paid by Block, the Company and/or the Affiliates to such Block Employees. Executive agrees and understands that it is important to protect Block, the Company and the Affiliates and their employees, agents, directors, and clients from the unauthorized use and appropriation of Block Employee information, Proprietary Information, and trade secret business information developed, held, or used by Block, the Company and/or the Affiliates, and to protect Block, the Company and the Affiliates and their employees, agents, directors, and customers Executive agrees to the covenants described in this Article Four.

4.02 **Non-Solicitation of Employees.** During the period of Executive's employment and for a period of two years after Executive's date of termination, Executive may not directly or indirectly recruit, solicit, or hire any Block Employee or otherwise induce any Block Employee to leave the employment of Block, the Company or the applicable Affiliate to become an employee of or otherwise be associated with any other party or with Executive or any company or business with which Executive is or may become associated. The running of the two-year period will be suspended during any period of violation and/or any period of time required to enforce this covenant by litigation or threat of litigation.

4.03 **Non-Solicitation of Customers.** During the period of Executive's employment and for two years after Executive's date of termination, Executive may not directly or indirectly solicit or enter into any arrangement with any person or entity which is, at the time of the solicitation, a significant customer of Block, the Company or an Affiliate for the purpose of engaging in any business transaction of the nature performed by Block, the Company or such Affiliate, or contemplated to be performed by Block, the Company or such Affiliate, for such customer, provided that this Section 4.03 will only apply to customers for whom Executive personally provided services while employed by the Company or customers about whom or which Executive acquired material information while employed by the Company. The running of the two-year period will be suspended during any period of violation and/or any period of time required to enforce this covenant by litigation or threat of litigation.

4.04 **No Conflicts.** Executive represents in good faith that, to the best of Executive's knowledge, the performance by Executive of all the terms of this Agreement will not breach any agreement to which Executive is or was a party and which requires Executive to keep any information in confidence or in trust. Executive has not brought and will not bring to the Company or Block nor will Executive use in the performance of employment responsibilities at the Company any proprietary materials or documents of a former employer that are not generally available to the public, unless Executive has obtained express written authorization from such former employer for their possession and use. Executive has not and will not breach any obligation of confidentiality that Executive may have to former employers and Executive will fulfill all such obligations during Executive's employment with the Company.

4.05 **Non-Competition.** During the period of Executive's employment hereunder and for two years after Executive's date of termination, Executive may not engage in, or own or control any interest in (except as a passive investor in less than one percent of the outstanding securities of publicly held companies), or act as an officer, director or employee of, or consultant or advisor to, any firm, corporation, partnership, limited liability company, institution, business, government agency, or entity that engages in any line of business that is competitive with any Line of Business of Block (as defined below). The definition of "*Line of Business of Block*" shall be determined as of the date of Executive's termination of employment with the Company (or, if earlier, the date of determination) and shall mean any line of business (including lines of business under substantial evaluation or substantial development) of the Company as of such date, as well as any one or more lines of business (including lines of business under substantial evaluation or substantial development) of any Affiliate as of such date, if Executive was employed during the two-year period preceding the date of termination by such Affiliate, provided that, "Line of Business of Block" will in all events include, but not be limited to, the income tax return preparation business, and provided further that if Executive's employment

was, as of the date of termination or during the two-year period immediately prior to the date of termination, with the Company or any successor entity thereto, “Line of Business of Block” means any line of business (including lines of business under substantial evaluation or substantial development) of Block and all of the Affiliates as of the date of Executive’s termination. The running of the two-year period will be suspended during any period of violation and/or any period of time required to enforce this covenant by litigation or threat of litigation.

4.06 **Non-Disparagement.** Executive, for himself and for his heirs, dependents, assigns, agents, executors, administrators, trustees and legal representatives agrees that he will not (and will use his best efforts to cause such affiliates to not), during the period of Executive’s employment and for two years after Executive’s date of termination, engage in any form of conduct, or make any statements or representations, that disparage or otherwise impair the reputation, goodwill, or commercial interests of Block, the Company or any Affiliate or any of their agents, officers, directors, employees and/or stockholders. The foregoing shall not be violated by truthful statements in response to legal process or required governmental testimony or filings.

4.07 **Cooperation.** During the period of Executive’s employment hereunder and thereafter, Executive agrees to reasonably assist and cooperate with Block, the Company and/or any Affiliate (and their outside counsel) in connection with the defense or prosecution of any claim that may be made or threatened against or by Block, the Company or any Affiliate, or in connection with any ongoing or future investigation or dispute or claim of any kind involving Block, the Company or any Affiliate, including any proceeding before any arbitral, administrative, judicial, legislative, or other body or agency, including preparing for and testifying in any proceeding to the extent such claims, investigations or proceedings relate to services performed or required to be performed by Executive, pertinent knowledge possessed by Executive, or any act or omission by Executive. Executive will perform all acts and execute and deliver any documents that may be reasonably necessary to carry out the provisions of this Section 4.07. Upon presentment to the Company of appropriate documentation, the Company will pay directly or reimburse Executive for the reasonable out-of pocket expenses incurred as a result of such cooperation.

4.08 **Reasonableness of Restrictions.** Executive and the Company acknowledge that the restrictions contained in this Agreement are reasonable, but should any provisions of any Article of this Agreement be determined to be invalid, illegal, or otherwise unenforceable or unreasonable in scope by any court of competent jurisdiction, the validity, legality, and enforceability of the other provisions of this Agreement will not be affected thereby and the provision found invalid, illegal, or otherwise unenforceable or unreasonable will be considered by the Company and Executive to be amended as to scope of protection, time, or geographic area (or any one of them, as the case may be) in whatever manner is considered reasonable by that court and, as so amended, will be enforced.

4.09 **Clawback.** If (x) Block is required to restate any of its financial statements filed with the Securities and Exchange Commission, other than restatements due solely to factors external to Block and its Affiliates such as a change in accounting principles or a change in securities laws or regulations with retroactive effect; or (y) Executive violates the provisions of

Article Three or Sections 4.02, 4.03 or 4.05, then the Block Board may seek to recover or require reimbursement of short-term incentive compensation, equity compensation awards (including profits from the sale of Block Common Stock acquired pursuant to such awards) and/or severance payments made to Executive; provided, however, that:

(a) absent egregious or extraordinary circumstances, any recovery or reimbursement based upon sub-section (x) above shall be limited to short-term incentive compensation or equity compensation paid or awarded to Executive for the period(s) covered by the restated financial statements that is in excess of what would have been paid or awarded to Executive for such period(s) if the short-term incentive compensation, equity compensation or severance payments had been based upon the restated financial statements; and

(b) in exercising its discretion to seek to recover or require reimbursement of any amounts as a result of any restatement pursuant to sub-section (x) above, the Block Board will give reasonable and due consideration to, among other relevant factors, the level of Executive's responsibility or influence, as well as the level of others' responsibility or influence, over the judgments or actions that gave rise to the restatement.

4.10 **Survival.** The obligations contained in this Article Four shall survive the termination or expiration of the Employment Period and Executive's employment by the Company and shall be fully enforceable thereafter, provided, that the provisions of Sections 4.02, 4.03 and 4.05 shall not apply if the Company shall terminate Executive's employment other than for Cause or Disability after July 31, 2014.

ARTICLE FIVE

MISCELLANEOUS

5.01 **Third-Party Beneficiary.** The parties hereto agree that Block is a third-party beneficiary as to the obligations imposed upon Executive under this Agreement and as to the rights and privileges to which the Company is entitled pursuant to this Agreement, and that Block is entitled to all of the rights and privileges associated with such third-party-beneficiary status.

5.02 **Block Guaranty.** Block and the Company hereby agree to be jointly and severally liable for the performance of all obligations and duties of the entities hereunder, and the payment of all amounts and provision of all benefits due to Executive under this Agreement.

5.03 **Entire Agreement.** This Agreement supersedes all previous term sheets and employment agreements, whether written or oral between Executive and the Company and constitutes the entire agreement and understanding between the Company and Executive concerning the subject matter hereof. No modification, amendment, termination, or waiver of this Agreement will be binding unless in writing and signed by Executive and a duly authorized officer of the Company. Failure of the Company, Block, or Executive to insist upon strict compliance with any of the terms, covenants, or conditions hereof will not be deemed a waiver of such terms, covenants, and conditions. If, and to the extent that, any other written or oral

agreement between Executive and Company or Block is inconsistent with or contradictory to the terms of this Agreement, the terms of this Agreement shall apply.

5.04 **Specific Performance.** The parties hereto acknowledge that money damages alone will not adequately compensate the Company or Block or Executive for breach of any of the covenants and agreements set forth in Articles Three and Four herein and, therefore, in the event of the breach or threatened breach of any such covenant or agreement by either party, in addition to all other remedies available at law, in equity or otherwise, a wronged party will be entitled to injunctive relief compelling specific performance of (or other compliance with) the terms hereof, without posting any bond.

5.05 **Successors and Assigns.** This Agreement is binding upon Executive and the heirs, executors, assigns and administrators of Executive or Executive's estate and property. This Agreement will be binding upon and inure to the benefit of the Company and Block and their respective successors (whether direct or indirect, by purchase, merger, consolidation or otherwise) and assigns. Executive may not assign or transfer to others the obligation to perform Executive's duties hereunder. The Company may assign this Agreement to an Affiliate with the consent of Executive, in which case, after such assignment, the "Company" means the Affiliate to which this Agreement has been assigned. In the event of Executive's death, any severance payment due and payable hereunder based on a termination of Executive's employment prior to such date of death shall be paid or provided to Executive's surviving spouse, or if there is no surviving spouse, to his estate.

5.06 **Withholding Taxes.** From any payments due hereunder to Executive from the Company, there will be withheld amounts reasonably believed by the Company to be sufficient to satisfy liabilities for federal, state, and local taxes and other charges and customary withholdings. Executive remains primarily liable to such authorities for such taxes and charges to the extent not actually paid by the Company.

5.07 **Indemnification.** To the fullest extent permitted by law and Block's Amended and Restated Bylaws, the Company hereby indemnifies during and after the period of Executive's employment hereunder Executive from and against all loss, costs, damages, and expenses including, without limitation, legal expenses of counsel selected by the Company to represent the interests of Executive (which expenses the Company will, to the extent so permitted, advance to executive as the same are incurred) arising out of or in connection with the fact that Executive is or was a director, officer, attorney, employee, or agent of the Company or Block or serving in such capacity for another corporation at the request of the Company or Block. Notwithstanding the foregoing, the indemnification provided in this Section 5.07 will not apply to any loss, costs, damages, and expenses arising out of or relating in any way to any employment of Executive by any former employer or the termination of any such employment.

5.08 **D&O Insurance.** The Company shall cover Executive under directors and officers liability insurance both during and, while potential liability exists, after the term of this Agreement in the same amount and to the same extent as the Company covers its other officers and directors.

5.09 **Right to Offset.** To the extent not prohibited by applicable law and in addition to any other remedy, the Company has the right but not the obligation to offset any amount that Executive owes the Company under this Agreement against any amounts due Executive by Block, the Company or the Affiliates.

5.10 **Notices.** All notices required or desired to be given hereunder must be in writing and will be deemed served and delivered if delivered in person, by certified or registered mail (return receipt requested), or by a nationally recognized overnight courier to Executive at the address then on file with the Company's payroll department; and to the Company, One H&R Block Way, Kansas City, Missouri 64105, Attn: Corporate Secretary; or to such other address and/or person designated by either party in writing to the other party. Any notice given by mail or by nationally recognized overnight courier will be deemed given as of the date it is so mailed and postmarked or received by a nationally recognized overnight courier for delivery.

5.11 **Counterparts.** This Agreement may be signed in counterparts and delivered by facsimile transmission confirmed promptly thereafter by actual delivery of executed counterparts.

5.12 **Section 409A.** The Company and Executive agree that this Agreement is intended to comply with the requirements of Section 409A ("*Section 409A*") of the Internal Revenue Code of 1986, as amended, and the regulations and other guidance promulgated thereunder (the "*Code*") or an exemption from Section 409A and, accordingly, this Agreement shall be interpreted to be consistent therewith. Notwithstanding anything in this Agreement to the contrary, if Executive is a "specified employee" (as described in Section 409A) on the date of termination, any amount to which Executive would otherwise be entitled during the first six months following a separation of service that constitutes nonqualified deferred compensation within the meaning of Section 409A and that is therefore not exempt from Section 409A as involuntary separation pay or a short-term deferral will be accumulated and paid in a single lump sum cash payment (without interest) on the earlier of (i) the first business day of the seventh month following the date of such "separation from service" (as defined under Section 409A) or (ii) the date of Executive's death, and any remaining payments and benefits due under this Agreement shall be paid or provided in accordance with the normal payment dates specified for them herein. For purposes of this Agreement, each amount to be paid or benefit to be provided hereunder shall be construed as a separate identified payment for purposes of Section 409A.

5.13 **Excise Tax.**

(a) **Contingent Cutback.** To the extent that any payment or distribution to or for the benefit of Executive pursuant to the terms of this Agreement or any other plan, arrangement or agreement with the Company, any Affiliate, any person whose actions result in a change of ownership or effective control covered by Section 280G(b)(2) of the Code or any person affiliated with the Company or such person, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise (the "*Payments*") would be subject to the excise tax (the "*Excise Tax*") imposed by Section 4999 of the Code, then the Company shall pay or provide to Executive the greatest of the following, whichever gives Executive the highest net after-tax amount (after taking into account federal, state, local and social security taxes at the maximum marginal rates): (1) the Payments or (2) one dollar less than

the amount of the Payments that would subject Executive to the Excise Tax (the "*Safe Harbor Cap*"). Unless Executive shall have given prior written notice specifying a different order to the Company to effectuate the Safe Harbor Cap, the Payments to be reduced hereunder will be determined in a manner which has the least economic cost to Executive and, to the extent the economic cost is equivalent, will be reduced in the inverse order of when the Payment would have been made to Executive until the reduction specified herein is achieved. Executive's right to specify the order of reduction of the Payments shall apply only to the extent that it does not directly or indirectly alter the time or method of payment of any amount that is deferred compensation subject to (and not exempt from) Section 409A.

(b) ***Determinations.*** All determinations required to be made under this Section 5.13, including whether and when the Safe Harbor Cap is required and the amount of the reduction of the Payments pursuant to the Safe Harbor Cap and the assumptions to be utilized in arriving at such determination, shall be made by a certified public accounting firm or executive compensation consulting firm, in either case of national standing (a "*Qualified Firm*") as mutually agreed to by the Company and Executive (or, if the Company and Executive cannot reach such mutual agreement, each shall select a Qualified Firm and such Qualified Firms shall mutually select a third Qualified Firm) and such selected Qualified Firm shall provide detailed supporting calculations both to the Company and Executive within 15 business days of the receipt of notice from Executive that there has been a Payment, or such earlier time as is requested by the Company. All fees and expenses of the Qualified Firm selected by the Company (and the third Qualified Firm if one is required to be selected) shall be borne solely by the Company. Any determination by the Qualified Firm shall be binding upon the Company and Executive. Executive shall cooperate, to the extent his reasonable out-of-pocket expenses are reimbursed by the Company, with any reasonable requests by the Company in connection with any contests or disputes with the Internal Revenue Service in connection with the Excise Tax.

5.14 ***Arbitration.*** The parties hereto may attempt to resolve any dispute hereunder informally via mediation or other means. Otherwise, any controversy or claim arising out of or relating to this Agreement, or any breach thereof, will, except as provided in Section 5.04, be adjusted only by arbitration in accordance with the Commercial Arbitration Rules of the American Arbitration Association then in effect. However, the rules will be modified in the following ways: (a) the arbitration will be conducted before a panel of three arbitrators, one selected by Executive within 10 days of the commencement of arbitration, one selected by the Company in the same period and the third selected jointly by these arbitrators (or, if they are unable to agree on an arbitrator within 30 days of the commencement of arbitration, the third arbitrator will be appointed by the American Arbitration Association; provided that the arbitrator shall be a partner or former partner at a nationally recognized law firm); (b) each arbitrator will agree to treat as confidential evidence and other information presented to them; (c) a decision must be rendered within 10 business days of the parties' closing statements or submission of post-hearing briefs; (d) the decision of the arbitrators must not be a compromise but must be the adoption of the submission by one of the parties; (e) there will be no authority to award punitive damages (and Executive and the Company agree not to request any such award); and (f) there will be no authority to amend or modify the terms of this Agreement except as provided in Section 5.03 (and Executive and the Company agree not to request any such amendment or modification). Judgment upon such award rendered by the arbitrator may be entered in any court having jurisdiction thereof. The arbitration will be held in Kansas City, Missouri, or such other

place as may be agreed upon at the time by the parties to the arbitration. The arbitrator(s) will, in their award, allocate between the parties the costs of arbitration, which will include reasonable attorneys' fees of the parties, as well as the arbitrator's fees and expenses, in such proportions as the arbitrator deems just.

(Signature Page Follows)

5.15 **Choice of Law.** This Agreement shall be governed by, construed and enforced in accordance with the Laws of the State of Missouri, excluding any conflicts of law, rule or principle that might otherwise refer to the substantive law of another jurisdiction.

IN WITNESS WHEREOF, the parties hereto, through their duly authorized officers, as applicable, have executed this Agreement as of the dates set forth below.

EXECUTIVE:

Dated: July 19, 2008

/s/ Russell P. Smyth

Russell P. Smyth

**H&R Block Management, LLC,
a Delaware limited liability company**

By: /s/ Bret G. Wilson

Name: Bret G. Wilson

Title: Vice President

Dated: July 19, 2008

**H&R Block, Inc.,
a Missouri corporation
(solely with respect to Sections 1.02(b),
1.03(c), 4.09, 5.01 and 5.02)**

By: /s/ Bret G. Wilson

Name: Bret G. Wilson

Title: Vice President & Secretary

Dated: July 19, 2008

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

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

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

Date: September 3, 2008

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

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

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

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

Date: September 3, 2008

/s/ Becky S. Shulman

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

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

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

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

/s/ Russell P. Smyth

Russell P. Smyth
Chief Executive Officer
H&R Block, Inc.
September 3, 2008

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

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

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

/s/ Becky S. Shulman

Becky S. Shulman
Chief Financial Officer
H&R Block, Inc.
September 3, 2008