

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

(Mark One)

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

For the fiscal year ended: April 30, 2006

OR

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

For the transition period from _____ to _____

Commission File Number: 1-6089



H&R Block, Inc.

(Exact name of registrant as specified in its charter)

MISSOURI

(State or other jurisdiction of
incorporation or organization)

44-0607856

(I.R.S. Employer Identification Number)

4400 Main Street, Kansas City, Missouri 64111

(Address of principal executive offices, including zip code)

(816) 753-6900

(Registrant's telephone number, including area code)

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

Title of each class
Common Stock, without par value

Name of each exchange on which registered
New York Stock Exchange
Pacific Exchange

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

Common Stock, without par value
(Title of Class)

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

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes ___ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ___

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one) Large accelerated filer ☒ Accelerated filer ___ Non-accelerated filer ___

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ___ No ☒

The aggregate market value of the registrant's Common Stock (all voting stock) held by non-affiliates of the registrant, computed by reference to the price at which the stock was sold on October 31, 2005, was \$8,049,475,793.

Number of shares of registrant's Common Stock, without par value, outstanding on May 31, 2006: 321,925,770.

Documents incorporated by reference

The definitive proxy statement relating to the registrant's Annual Meeting of Shareholders, to be held September 7, 2006, is incorporated by reference in Part III to the extent described therein.



H&R BLOCK

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INTRODUCTION AND FORWARD LOOKING STATEMENTS

Specified portions of our proxy statement, which will be filed in July 2006, are listed as “incorporated by reference” in response to certain items. Our proxy statement will be printed within our Annual Report and mailed to shareholders in July 2006 and will also be available on our website at www.hrblock.com.

In this report, and from time to time throughout the year, we share our expectations for the Company’s future performance. These forward-looking statements are based upon current information, expectations, estimates and projections regarding the Company, the industries and markets in which we operate, and our assumptions and beliefs at that time. These statements speak only as of the date on which they are made, are not guarantees of future performance, and involve certain risks, uncertainties and assumptions, which are difficult to predict. Therefore, actual outcomes and results could materially differ from what is expressed, implied or forecast in these forward-looking statements. Words such as “believe,” “will,” “plan,” “expect,” “intend,” “estimate,” “approximate,” and similar expressions may identify such forward-looking statements.

PART I

ITEM 1. BUSINESS

GENERAL DEVELOPMENT OF BUSINESS –

H&R Block is a diversified company with subsidiaries providing tax, investment, mortgage and business services and products. Our Tax Services segment provides income tax return preparation and other services and products related to tax return preparation to the general public in the United States, and in Canada, Australia and the United Kingdom. We also offer investment services and securities products through H&R Block Financial Advisors, Inc. (HRBFA). Our Mortgage Services segment offers a full range of home mortgage services through Option One Mortgage Corporation (Option One) and H&R Block Mortgage Corporation (HRBMC). RSM McGladrey Business Services, Inc. (RSM) is a national accounting, tax and business consulting firm primarily serving mid-sized businesses.

H&R BLOCK’S MISSION –

“To help our clients achieve their financial objectives by serving as their tax and financial partner.”

We serve our clients’ financial needs through the consistent high quality delivery of a variety of tax and financial services. Operating through multiple lines of business allows us to better meet the changing financial needs of our clients.

H&R Block, Inc. was organized as a corporation in 1955 under the laws of the State of Missouri, and is a holding company with operating subsidiaries providing financial services and products to the general public. “H&R Block,” “the Company,” “we,” “our” and “us” are used interchangeably to refer to H&R Block, Inc. or to H&R Block, Inc. and its subsidiaries, as appropriate to the context.

RECENT DEVELOPMENTS – In March 2006, the Office of Thrift Supervision (OTS) approved the charter of the H&R Block Bank. The bank will commence operations on May 1, 2006. In fiscal year 2007, we will realign certain segments of our business to reflect a new management reporting structure.

On February 22, 2006, the Company’s management and the Audit Committee of the Board of Directors concluded to restate previously issued consolidated financial statements for the fiscal quarters ended October 31, 2005 and July 31, 2005, and the fiscal years ended April 30, 2005 and 2004 and the related fiscal quarters. The Company arrived at this conclusion during the course of its closing process for the quarter ended January 31, 2006. The restatement pertained primarily to errors in determining the Company’s state effective income tax rate, including errors in identifying changes in state apportionment, expiring state net operating losses and related factors, for the fiscal years ended April 30, 2005 and 2004, and the related fiscal quarters.

On June 8, 2005, our Board of Directors declared a two-for-one stock split of the Company’s Common Stock in the form of a 100% stock distribution, effective August 22, 2005, to shareholders of record as of the close of business on August 1, 2005. All share and per share amounts in this document have been adjusted to reflect the retroactive effect of the stock split.

FINANCIAL INFORMATION ABOUT INDUSTRY SEGMENTS –

See discussion below and in Item 8, note 19 to our consolidated financial statements.

DESCRIPTION OF BUSINESS –

TAX SERVICES

GENERAL – Our Tax Services segment is primarily engaged in providing tax return preparation and related services and products in the United States and its territories, Canada, Australia and the United Kingdom. Revenues include fees earned for services performed at company-owned retail tax offices, royalties from franchise retail tax offices, sales of Peace of Mind (POM) guarantees, sales of tax preparation and other software, fees from online tax preparation, and participation in refund anticipation loans (RALs). Segment revenues constituted 50.3% of our consolidated revenues for fiscal year 2006, 53.4% for 2005, and 51.6% for 2004.

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

We offer a number of digital tax preparation alternatives. TaxCut® from H&R Block enables do-it-yourself users to prepare their federal and state tax returns easily and accurately. Our software products may be purchased through third-party retail stores, direct mail or online.

Clients also have many online options: multiple versions of do-it-yourself tax preparation, professional tax review, tax advice and tax preparation through a tax professional, whereby the client completes a tax organizer and sends it to a tax professional for preparation and/or signature.

By offering professional and do-it-yourself tax preparation options through multiple channels, we can serve our clients in the manner in which they choose to be served.

We also offer clients a number of options for receiving their income tax refund, including a check directly from the Internal Revenue Service (IRS), an electronic deposit directly to their bank account, a refund anticipation check or a RAL.

The following are some of the services we offer with our tax preparation service:

PEACE OF MIND GUARANTEE – The POM guarantee is offered to U.S. clients, whereby we (1) represent our clients if audited by the IRS, and (2) assume the cost, subject to certain limits, of additional taxes owed by a client resulting from errors attributable to one of our tax professionals' work. The POM program has a per client cumulative limit of \$5,000 in additional taxes assessed with respect to the federal, state and local tax returns we prepared for the taxable year covered by the program.

RALs – RALs are offered to our U.S. clients by a designated bank through a contractual relationship with HSBC Holdings plc (HSBC). An eligible, electronic filing client may apply for a RAL at one of our offices. After meeting certain eligibility criteria, clients are offered the opportunity to apply for a loan from HSBC in amounts up to \$9,999 based upon their anticipated federal income tax refund. We simultaneously transmit the income tax return information to the IRS and the lending bank. Within a few days or less after the filing date, the client receives a check or direct deposit in the amount of the loan, less the bank's transaction fee, our tax return preparation fee and other fees for client-selected services. Additionally, qualifying electronic filing clients are eligible to receive their RAL proceeds, less applicable fees, in approximately one hour after electronic filing using the Instant Money service. For a RAL to be repaid, the IRS directly deposits the participating client's federal income tax refund into a designated account at the lending bank. See related discussion of RAL participations below.

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

EXPRESS IRAs – Individual retirement accounts (Express IRAs), invested in FDIC-insured money market accounts, are offered to U.S. clients as a tax-advantaged retirement savings tool. HRBFA acts as custodian on the accounts, with the funds being invested at insured depository institutions paying competitive money market interest rates.

TAX RETURN PREPARATION COURSES – We offer income tax return preparation courses to the public, which teach students how to prepare income tax returns and provide us with a source of trained tax professionals.

SOFTWARE PRODUCTS – We develop and market TaxCut income tax preparation software, Kiplinger's Home and Business Attorney and Kiplinger's WILLPowerSM software products.

TaxCut offers a simple step-by-step tax preparation interview, data imports from money management software and tax preparation software, calculations, completion of the appropriate tax forms, checking for errors and, for an additional charge, electronic filing.

ONLINE TAX PREPARATION – We offer a comprehensive range of tax services and products, from tax advice to complete professional and do-it-yourself tax return preparation and electronic filing, through our website at www.hrblock.com and www.taxcut.com. These websites allow clients to prepare their federal and state income tax returns using the TaxCut Online

Tax Program, access tax tips, advice and tax-related news and use calculators for tax planning.

Beginning with the fiscal year 2003 tax season, we participated in the Free File Alliance (FFA). This alliance was created by the tax return preparation industry and the IRS, and allows qualified filers to prepare and file their federal return online at no charge. We feel that this program provides a valuable public service and increases our visibility with new clients, while also providing an opportunity to offer our state return preparation services to these new clients at our regular prices.

CASHBACK PROGRAM—We offer a refund discount (CashBack) program to our customers in Canada. Canadian law specifies the procedures we must follow in conducting the program. In accordance with current Canadian regulations, if a customer's tax return indicates the customer is entitled to a tax refund, we issue a check to the client. The client assigns to us the full amount of the tax refund to be issued by the Canada Revenue Agency (CRA) and the refund check is then sent by the CRA directly to us. In accordance with the law, the discount is deemed to include both the tax return preparation fee and the fee for tax refund discounting. This program is financed by short-term borrowings. The number of returns discounted under the CashBack program in fiscal year 2006 was approximately 653,000, compared to 581,000 in 2005 and 552,000 in 2004. See discussion of the Canadian tax season extension under "Seasonality of Business."

CLIENTS SERVED—We, together with our franchisees, served approximately 21.9 million clients worldwide during fiscal year 2006, compared to 21.4 million in 2005 and 21.6 million in 2004. See discussion of the Canadian tax season extension under "Seasonality of Business." We served 19.5 million clients in the U.S. during fiscal year 2006, compared to 19.1 million in 2005 and 19.3 million in 2004. "Clients served" includes taxpayers for whom we prepared income tax returns in offices, federal software units sold, online completed and paid federal returns, paid state returns when no federal return was purchased, and taxpayers for whom we provided only paid electronic filing services. Our U.S. clients served constituted 15.7% of an IRS estimate of total individual income tax returns filed as of April 30, 2006, compared to 15.6% in 2005 and 15.7% in 2004.

OWNED AND FRANCHISED OFFICES—A summary of our company-owned and franchise offices is as follows:

April 30,	2006	2005	2004
U.S. OFFICES —			
Company-owned offices	6,387	5,811	5,172
Company-owned shared locations ⁽¹⁾	1,473	1,296	996
Total company-owned offices	7,860	7,107	6,168
Franchise offices	3,703	3,528	3,418
Franchise shared locations ⁽¹⁾	602	526	323
Total franchise offices	4,305	4,054	3,741
	12,165	11,161	9,909
INTERNATIONAL OFFICES —			
Canada	1,011	912	891
Australia	362	378	378
Other	10	10	7
	1,383	1,300	1,276

⁽¹⁾ Shared locations include offices located within Wal-Mart, Sears or other third-party businesses.

Offices in shared locations include 1,138 offices operated in Wal-Mart stores and 793 offices in Sears stores operated as "H&R Block at Sears." The Wal-Mart agreement expires in May 2007, and the Sears license agreement expires in July 2007, both subject to termination rights.

We offer franchises as a way to expand our presence in the market. Our franchise arrangements provide us with certain rights which are designed to protect our brand. Most of our franchisees receive signs, designated equipment, specialized forms, local advertising, initial training, and supervisory services, and pay us a percentage of gross tax return preparation and related service revenues as a franchise royalty.

From time to time, we have acquired the territories of existing franchisees and other tax return preparation businesses, and will continue to do so if future conditions warrant and satisfactory terms can be negotiated. During fiscal year 2004, we paid \$243.2 million to acquire the operations of ten of our former major franchisees.

RAL PARTICIPATIONS—Since July 1996, we have been a party to agreements with HSBC and its predecessors to participate in RALs provided by a lending bank to H&R Block tax clients. The 1996 agreement was amended and restated in January 2003 and again in June 2003. In the June 2003 agreement, we obtained the right to purchase a 49.9% participation interest in RALs obtained through company-owned and regular franchise offices and a 25% interest in RALs obtained through major franchise offices. The current agreement continues through June 2006. During fiscal year 2006, we signed a new agreement with HSBC in which we obtained the right to

purchase a 49.9% participation interest in all RALs obtained through our retail offices. We received a signing bonus from HSBC during the current year in connection with this agreement, which was primarily recorded as deferred revenue at April 30, 2006. The new agreement will be in effect from July 2006 through June 2011. Our purchases of the participation interests are financed through short-term borrowings, and we bear all of the credit risk associated with our interests in the RALs. Revenue from our participation is calculated as the rate of participation multiplied by the fee paid by the borrower to the lending bank. Our RAL participation revenue was \$177.9 million, \$182.8 million and \$168.4 million in fiscal years 2006, 2005 and 2004, respectively.

SEASONALITY OF BUSINESS – Because most of our clients file their tax returns during the period from January through April of each year, substantially all of our revenues from income tax return preparation and related services and products are received during this period. As a result, our tax segment generally operates at a loss through the first eight months of the fiscal year. Historically, these losses primarily reflect wages of year-round personnel, training of tax professionals, rental and furnishing of retail tax offices, and other costs and expenses relating to preparation for the upcoming tax season. Additionally, the tax business is affected by economic conditions and unemployment rates. Peak revenues occur during the applicable tax season, as follows:

United States and Canada	January – April
Australia	July – October

In the current fiscal year, the CRA extended the Canadian tax season to May 1, 2006. Clients served in our Canadian operations in fiscal year 2006 includes approximately 41,400 returns in both company-owned and franchise offices which were accepted by the client on May 1, 2006. The revenues related to these returns will be recognized in fiscal year 2007. Last year, the Canadian tax season was extended to May 2, 2005. Clients served in our Canadian operations in fiscal year 2005 includes approximately 47,500 returns in both company-owned and franchise offices which were accepted by the client on May 1 and 2, 2005. The revenues related to these returns were recognized in fiscal year 2006.

COMPETITIVE CONDITIONS – The retail tax services business is highly competitive. There are a substantial number of tax return preparation firms and accounting firms offering tax return preparation services. Many tax return preparation firms and many firms not otherwise in the tax return preparation business are involved in providing electronic filing and RAL services to the public. Commercial tax return preparers and electronic filers are highly competitive with regard to price, service and reputation for quality. In terms of the number of offices and personal tax returns prepared and electronically filed in offices, online and via our software, we are the largest company providing direct tax return preparation and electronic filing services in the U.S. We also believe we operate the largest tax return preparation businesses in Canada and Australia.

Our digital tax solutions businesses compete with a number of companies. Intuit, Inc. is the dominant supplier of tax preparation software and is also our primary competitor in the online tax preparation market. There are many smaller competitors in the online market, as well as free state-sponsored online filing programs. Price and marketing competition for tax preparation services increased in fiscal years 2006 and 2005.

GOVERNMENT REGULATION – Primary efforts toward the regulation of U.S. commercial tax return preparers have historically been made at the federal level. Federal legislation requires income tax return preparers to, among other things, set forth their signatures and identification numbers on all tax returns prepared by them, and retain all tax returns prepared for three years. Federal laws also subject income tax return preparers to accuracy-related penalties in connection with the preparation of income tax returns. Preparers may be prohibited from further acting as income tax return preparers if they continuously and repeatedly engage in specified misconduct. With certain exceptions, the Internal Revenue Code also prohibits the use or disclosure by income tax return preparers of certain income tax return information without the prior written consent of the taxpayer. In addition, the Gramm-Leach-Bliley Act and Federal Trade Commission regulations adopted thereunder require income tax preparers to adopt and disclose consumer privacy policies, and provide consumers a reasonable opportunity to “opt-out” of having personal information disclosed to unaffiliated third parties for marketing purposes. Some states have adopted or proposed strict “opt-in” requirements in connection with use or disclosure of consumer information.

We believe the federal legislation regulating commercial tax return preparers and consumer privacy has not had and will not have a material adverse effect on the operations of H&R Block. In addition, no present state statutes of this nature have had a material adverse effect on our business. We cannot, however, predict what the effect may be of the enactment of new statutes or adoption of new regulations.

The federal government regulates the electronic filing of income tax returns in part by requiring individuals and businesses to be accepted into the electronic filing program. Once accepted, electronic filers must comply with all publications and notices of the IRS applicable to electronic filing, provide certain

information to the taxpayer, comply with advertising standards for electronic filers, and be subjected to possible monitoring by the IRS, penalties for disclosure or use of income tax return preparation and other preparer penalties, and suspension from the electronic filing program. States that have adopted electronic filing programs for state income tax returns have also enacted laws regulating electronic filers and the advertising and offering of electronic filing services.

Federal statutes and regulations also regulate an electronic filer's involvement in RALs. Electronic filers must clearly explain the RAL is a loan and not a substitute for or a quicker way of receiving an income tax refund. Federal laws place restrictions on the fees an electronic filer may charge in connection with RALs. In addition, some states and localities have enacted laws and adopted regulations for RAL facilitators and/or the advertising of RALs. There are also many states that have statutes regulating, through licensing and other requirements, the activities of brokering loans, providing credit services and offering "credit repair" services to consumers for a fee (Loan Activity Statutes). We believe the procedures under which we facilitate RALs are structured so our activities are not included within the scope of the activities regulated by these Loan Activity Statutes. There can be no assurances, however, that states with these Loan Activity Statutes will not contend successfully that these statutes apply to the RAL business and that we will need to become licensed under the Loan Activity Statutes, otherwise comply with statutory requirements, or modify procedures so that the Loan Activity Statutes are inapplicable.

Many states have statutes requiring the licensing of persons offering contracts of insurance. We have received from certain state insurance regulators inquiries about our POM guarantee program and the applicability of the state insurance statutes. In states where the inquiries are closed, the regulators affirmed our position that the POM guarantee is not a contract of insurance and is therefore not subject to state insurance licensing laws. In the few states where inquiries are pending, we believe there are no insurance laws under which the POM guarantee constitutes a contract of insurance. There can be no assurances, however, that the product, or other similar products we may offer in the future, will not be scrutinized as potential insurance products and held to be subject to various insurance laws and regulations.

Many of our income tax courses are regulated and licensed in select states. Failure to obtain a tax school license could limit our ability to develop interest in tax preparation as a career or obtain qualified tax professionals.

We believe the federal, state and local laws and legislation regulating electronic filing, RALs and the facilitation of RALs, loan brokers, credit services, credit repair services, insurance products, and proprietary schools have not, and will not in the future, have a material adverse effect on our operations. We cannot predict, however, what the effect may be of the enactment of new statutes or the adoption of new regulations pertaining to these matters.

As noted above under "Owned and Franchised Offices," many of the income tax return preparation offices operating in the U.S. under the name "H&R Block" are operated by franchisees. Certain aspects of the franchisor/franchisee relationship have been the subject of regulation by the Federal Trade Commission and by various states. The extent of regulation varies, but relates primarily to disclosures to be made in connection with the grant of franchises and limitations on termination by the franchisor under the franchise agreement. To date, no such regulation has materially affected our business. We cannot predict, however, the effect of applicable statutes or regulations that may be enacted or adopted in the future.

We also seek to determine the applicability of all government and self-regulatory organization statutes, ordinances, rules and regulations in the international countries in which we operate (collectively, Foreign Laws) and to comply with these Foreign Laws. We cannot predict what effect the enactment of future Foreign Laws, changes in interpretations of existing Foreign Laws, or the results of future regulator inquiries regarding the applicability of Foreign Laws may have on our segments, any particular subsidiary, or our consolidated financial statements.

Statutes and regulations relating to income tax return preparers, electronic filing, franchising and other areas affecting the income tax business also exist in other countries in which we operate. In addition, the Canadian government regulates the refund-discounting program in Canada. These laws have not materially affected our international operations.

See discussion in "Risk Factors" for additional information.

MORTGAGE SERVICES

GENERAL – Our Mortgage Services segment originates mortgage loans, services non-prime mortgage loans and sells and securitizes mortgage loans and residual interests in the U.S. Revenues primarily consist of gains from sales and securitizations of mortgage assets, accretion on residual interests and servicing fee income. Segment revenues constituted 25.6% of our consolidated revenues for fiscal year 2006 and 28.2% for 2005 and 31.2% for 2004.

We originate both non-prime and prime mortgage loans. Non-prime mortgages are those that may not be offered through

government-sponsored loan agencies and typically involve borrowers with limited income documentation, high levels of consumer debt or past credit problems. Even though these borrowers have credit problems, they also tend to have equity in their property that will be used to secure the loan. Prime mortgages are those that may be offered through government sponsored loan agencies. We conduct business through four channels:

- Option One's wholesale origination channel works with independent brokers throughout the U.S. to fund non-prime mortgage loans through a national branch network. Wholesale originations represent the majority of Option One's total loan production.
- HRBMC originates residential mortgage loans directly to retail consumers.
- Option One's national accounts channel forms partnerships with financial institutions, including national and regional banks, to allow them to offer non-prime loans.
- Option One's bulk acquisitions channel specializes in the purchase of performing non-prime mortgage loan pools.

Option One is headquartered in Irvine, California and operates in 48 states by serving 49,000 mortgage broker locations and through its network of 35 wholesale loan production branches and eight retail production offices.

HRBMC, a wholly-owned subsidiary of Option One, is a retail mortgage lender for prime, non-prime and government loans and is licensed to conduct business in all 50 states. HRBMC is an approved seller/servicer for Fannie Mae and Freddie Mac and is HUD authorized to originate and underwrite FHA and VA mortgage loans.

In the current year, we terminated approximately 1,200 employees and closed some of our branch offices through a restructuring. This resulted in a pretax charge of \$12.6 million. See additional discussion of our restructuring charge in Item 8, note 16 to the consolidated financial statements.

LOAN ORIGATION – We originated \$40.8 billion, \$31.0 billion and \$23.3 billion in mortgage loans during fiscal years 2006, 2005 and 2004, respectively. Information regarding our non-prime loan originations is as follows:

Year Ended April 30,	2006	2005	2004
Loan type:			
2-year ARM	43.9%	61.6%	63.4%
3-year ARM	1.9%	4.0%	5.2%
Fixed 1 st	12.7%	17.7%	28.7%
Fixed 2 nd	4.9%	3.8%	1.6%
Interest only 1 st	21.1%	12.6%	0.7%
40-Year	13.4%	0.0%	0.0%
Other	2.2%	0.3%	0.4%
Percentage of fixed-rate mortgages	20.0%	22.1%	30.4%
Percentage of adjustable-rate mortgages	80.0%	77.9%	69.6%
Percentage of first mortgage loans owner-occupied	91.7%	92.6%	92.9%
Loan purpose:			
Cash-out refinance	60.2%	63.5%	67.1%
Purchase	35.0%	30.8%	26.0%
Rate or term refinance	4.8%	5.7%	6.9%

WHOLESALE. Wholesale loan originations involve an independent broker who assists the borrower in completing the loan application, which includes securing information regarding their assets, liabilities, income, credit history, employment history and personal information. We require a credit report on each applicant from an industry-recognized credit reporting company. In evaluating an applicant's credit history, we use credit bureau risk scores, generally known as a FICO score, which is a statistical ranking of likely future credit performance developed by Fair, Isaac & Company and provided by the three national credit data repositories. Qualified independent appraisers are required to appraise mortgaged properties used to secure mortgage loans. The broker then identifies a lender who offers a loan product best suited to the borrower's financial needs. No one broker currently originates more than 0.7% of our total non-prime production.

Upon receipt of an application from a broker, a credit report and an appraisal report, one of our branch offices processes and underwrites the loan. Our underwriting guidelines require mortgage loans be underwritten in a standardized procedure that complies with federal and state laws and regulations. The guidelines are primarily intended to assess the value of the mortgaged property, evaluate the adequacy of the property as collateral for the mortgage loan, and assess the creditworthiness

of the related borrower. The underwriting process may include an automated underwriting decision system as a tool to assist in the assessment of the creditworthiness of the borrower. Based upon this assessment, we advise the broker whether the loan application meets our underwriting guidelines and product description by issuing a loan approval or denial. In some cases, we issue a “conditional approval,” which requires the submission of additional information or clarification. The mortgage loans are underwritten with a view toward resale in the secondary market.

RETAIL. HRBMC originates our retail mortgage loans. In fiscal year 2006, 69% of our retail originations were non-prime and 31% were prime, compared to 75% and 25%, respectively, in 2005. During fiscal year 2006, approximately 20% of HRBMC’s loans were made to existing H&R Block clients compared to 35% in 2005.

The application and approval process in our retail locations is similar to those described above under “Wholesale.”

SALE AND SECURITIZATION OF LOANS – Substantially all non-prime mortgage loans are sold daily to qualifying special purpose entities (Trusts). See discussion of our loan sale and securitization process in Item 7, under “Off-Balance Sheet Financing Arrangements.” At April 30, 2006, Option One held \$407.5 million in loans for transfer to the H&R Block Bank when it commences operations in May 2006. These loans have been classified as held for investment on our consolidated balance sheet.

Substantially all of our retail prime mortgage loans are sold to Countrywide Home Loans, Inc. (Countrywide). The majority of mortgage loans sold to Countrywide are underwritten through an automated system under which Countrywide assumes our representations and warranties, which comply with Countrywide’s underwriting guidelines. This agreement allows us to achieve improved execution due to price, efficiencies in delivery, and elimination of redundancies in operations. We do not retain servicing rights related to the prime mortgage loans. HRBMC non-prime mortgage loans are sold to Option One. See discussion of our prime warehouse line in Item 7, under “Capital Resources and Liquidity by Segment.”

SERVICING – Loan servicing involves collecting and remitting mortgage loan payments, making required advances, accounting for principal and interest, holding escrow for payment of taxes and insurance and contacting delinquent borrowers. We receive loan-servicing fees monthly over the life of the mortgage loans. We only service non-prime mortgage loans. At the end of fiscal year 2006, we serviced 441,981 loans totaling \$73.4 billion, compared to 435,290 loans totaling \$68.0 billion at April 30, 2005 and 324,364 loans totaling \$45.3 billion at April 30, 2004.

The following table summarizes our servicing portfolio by origin and includes related mortgage servicing rights (MSRs) as of April 30, 2006 and the rate we earned on each type of servicing during fiscal year 2006:

(dollars in 000s)			
Type of Servicing	Principal Balance	MSR Balance	Rate Earned
Originated	\$ 62,813,849	\$ 272,472	0.38%
Sub-servicing	10,471,509	-	0.18%
Purchased	96,719	-	0.50%
Total	\$ 73,382,077	\$ 272,472	0.38%

When non-prime loans are sold or securitized, we generally retain the right to service the loans, which results in MSR assets being recorded on our balance sheet. Assumptions used in estimating the value of MSRs are discussed in Item 8, note 1 to our consolidated financial statements. In addition to servicing loans we originate, we also service non-prime loans originated by other lenders, designated in the above table as sub-servicing. MSRs are recorded only in conjunction with our originated or purchased loan-servicing portfolio.

GEOGRAPHIC DISTRIBUTION – The following table details the percent of non-prime loan origination volume and our loan origination branches by state, excluding our Retail channel, for fiscal years 2006 and 2005:

State	2006		2005	
	Percent of Volume	Number of Branches	Percent of Volume	Number of Branches
California	24.5%	6	21.8%	8
Florida	10.7%	3	7.2%	4
New York	9.1%	2	11.5%	2
Massachusetts	6.7%	2	8.4%	2
New Jersey	5.1%	1	5.3%	3
Other	43.9%	20	45.8%	23

COMPETITIVE CONDITIONS – Both the non-prime and prime sectors of the residential mortgage loan market are highly competitive. The principal methods of competition are price, service and product differentiation. There are a substantial number of companies competing in the residential loan market, including mortgage banking companies, commercial banks, savings associations, credit unions and other financial institutions. There are also numerous companies competing in the business of servicing non-prime loans. No one firm is a dominant supplier of non-prime and prime mortgage loans or a

dominant servicer of non-prime loans. *Inside B&C Lending* ranked Option One as the number seven originator, based on market share as of March 31, 2006, and the number three servicer, based on servicing volume as of March 31, 2006, of non-prime loans in the industry.

SEASONALITY OF BUSINESS – Residential mortgage volume is not subject to significant seasonal fluctuations. The mortgage business is cyclical, however, and directly affected by national economic conditions, trends in business and finance and is impacted by changes in interest rates.

GOVERNMENT REGULATION – Mortgage loans purchased, originated and/or serviced are subject to federal laws and regulations, including:

- The federal Truth-in-Lending Act, as amended, and Regulation Z promulgated thereunder;
- The Equal Credit Opportunity Act, as amended, and Regulation B promulgated thereunder;
- The Fair Credit Reporting Act, as amended;
- The Fair Debt Collection Practices Act;
- The federal Real Estate Settlement Procedures Act, as amended, and Regulation X promulgated thereunder;
- The Home Ownership Equity Protection Act (HOEPA);
- The Soldiers' and Sailors' Civil Relief Act of 1940, as amended;
- The Home Mortgage Disclosure Act (HMDA) and Regulation C promulgated thereunder;
- The federal Fair Housing Act;
- The Telephone Consumer Protection Act;
- The Gramm-Leach-Bliley Act and regulations adopted thereunder;
- The Fair and Accurate Credit Transactions Act;
- Regulation AB; and
- Certain other laws and regulations.

Under environmental legislation and case law applicable in certain states, it is possible that liability for environmental hazards in respect of real property may be imposed on a holder of a deed to the property, which may impair the underlying collateral.

Applicable state laws generally regulate interest rates and other charges pertaining to non-prime loans. These states also require certain disclosures and require originators of certain mortgage loans to be licensed unless an exemption is available. In addition, most states have other laws, public policies and general principles of equity relating to consumer protection, unfair and deceptive practices, and practices that may apply to the origination, servicing and collection of mortgage loans.

In recent years, there has been a noticeable increase in state, county and municipal statutes, ordinances and regulations that prohibit or regulate so-called "predatory lending" practices. Predatory lending statutes such as HOEPA, regulate "high-cost loans," which are defined separately by each state, county or municipal statute, regulation or ordinance, but generally include mortgage loans with interest rates exceeding a (1) specified margin over the Treasury Index for a comparable maturity, or (2) designated percentage of points and fees charged to borrowers. Statutes, ordinances and regulations that regulate high-cost loans generally prohibit mortgage lenders from engaging in certain defined practices, or require mortgage lenders to implement certain practices, in connection with any mortgage loans that fit within the definition of a high-cost loan. We do not originate loans which meet the definition of high-cost loans under any law.

Certain state laws restrict or prohibit prepayment penalties on mortgage loans, and we relied on the federal Alternative Mortgage Transactions Parity Act (Parity Act) and related rules issued in the past by the OTS to preempt state limitations on prepayment penalties. In September 2003, the OTS released a new rule that reduced the scope of the Parity Act preemption effective July 1, 2004 and, as a result, we can no longer rely on the Parity Act to preempt state restrictions on prepayment penalties. The elimination of this federal preemption requires compliance with state restrictions on prepayment penalties. These restrictions prohibit us from charging any prepayment penalty in six states and restrict the amount or duration of prepayment penalties that we may impose in an additional eleven states. This places us at a competitive disadvantage relative to financial institutions that continue to enjoy federal preemption of such state restrictions. Such institutions can charge prepayment penalties without regard to state restrictions and, as a result, may be able to offer loans with interest rate and loan fee structures that are more attractive than the interest rate and loan fee structures that we are able to offer.

See discussion in "Risk Factors" for additional information.

BUSINESS SERVICES

GENERAL – Our Business Services segment offers middle-market companies accounting, tax and business consulting services. We have continued to expand the services we offer our clients by adding wealth management, retirement resources, payroll services, corporate finance and financial process outsourcing. Segment revenues constituted 18.0% of our consolidated revenues for fiscal year 2006, 13.0% for 2005 and 11.8% for 2004.

This segment consists primarily of RSM McGladrey, Inc., which provides accounting, tax, and business consulting services from 125 offices in 26 states and offers services in 18 of the top 25 U.S. markets.

Services are also provided through the following businesses:

- RSM McGladrey Retirement Resources administers retirement plans, helps clients design the best plan for their needs, and provides retirement plan investment advice, year-end compliance, tax reporting and consulting.
- RSM EquiCo, Inc. is an investment banking firm specializing in business valuations, acquisitions and divestitures for private middle-market businesses.
- RSM McGladrey Employer Services, Inc. is a provider of payroll and benefits administration services to middle-market businesses.
- RSM McGladrey Financial Process Outsourcing, Inc. is a provider of accounting, reporting, payroll and bill paying services to distributors/franchisors and their population of retailers/franchisees.
- PDI Global, Inc. provides marketing, communications and visibility programs, tax and financial planning guides, and marketing and management consulting services to accountants, consultants, lawyers, banks, insurers, and other financial service providers.

From time to time, we have acquired businesses, and will continue to do so if future conditions warrant and satisfactory terms can be negotiated. During fiscal year 2006, we paid \$190.7 million to acquire all the outstanding common stock of American Express Tax and Business Services, Inc., which has been merged into RSM McGladrey, Inc.

RELATIONSHIP WITH ATTEST FIRMS – By regulation, we cannot provide audit and attest services. M&P, and other public accounting firms, including those public accounting firms previously associated with American Express Tax and Business Services, with whom we do business (collectively, “the Attest Firms”) provide audit and review services and other services in which the Attest Firms issue written reports on client financial statements. Through a number of agreements, including agreements with these Attest Firms, we lease accounting personnel and provide accounting, payroll, human resources and other administrative services to the Attest Firms and receive a management fee for these services. We also have a cost-sharing arrangement with the Attest Firms, whereby they reimburse us for the costs of certain items, mainly supplies and for the use of RSM owned or leased real estate, property and equipment. The Attest Firms are limited liability partnerships with their own management committees, legal and business advisors, professional liability insurance and risk management policies. Accordingly, the Attest Firms are separate legal entities and not affiliates. Some partners and employees of the Attest Firms are also employees of RSM McGladrey.

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

COMPETITIVE CONDITIONS – The accounting, tax and consulting business is highly competitive. The principal methods of competition are price, service and reputation for quality. There are a substantial number of accounting firms offering similar services at the international, national, regional and local levels. As our focus is on middle-market businesses, our principal competition is with national and regional accounting firms. We believe we have a competitive advantage in the geographic areas in which we are currently located based on the breadth of services we can offer to these clients above and beyond what a traditional accounting firm can offer.

GOVERNMENT REGULATION – Many of the same federal and state regulations relating to tax preparers and the information concerning tax reform discussed above in the “Government Regulation” section of “Tax Services” apply to the Business Services segment as well. However, accountants are not subject to the same prohibition on the use or disclosure of certain income tax return information as tax professionals. Accounting firms are also subject to state and federal regulations governing accountants, auditors and financial planners. Various legislative and regulatory proposals have been made relating to auditor independence and accounting oversight, among others. Some of these proposals, if adopted, could have an impact on our operations. We believe current state and federal regulations and known legislative and regulatory proposals do not and will not have a material adverse effect on our operations, but we cannot predict what the effect of future legislation, regulations and proposals may be.

Auditor independence rules of the Securities and Exchange Commission (SEC) and the Public Company Accounting Oversight Board (PCAOB) apply to the Attest Firms as public accounting firms. In applying its auditor independence rules, the SEC views us and the Attest Firms as a single entity and requires that the SEC independence rules for the Attest Firms apply to RSM McGladrey and that we be independent of any SEC audit client of the Attest Firms. The SEC regards any financial interest or prohibited business relationship we have with a client of the Attest Firms as a financial interest or prohibited business relationship between the Attest Firms and the client for purposes of applying its auditor independence rules.

We and the Attest Firms have jointly developed and implemented policies, procedures and controls designed to ensure

the Attest Firms' independence and integrity as an audit firm in compliance with applicable SEC regulations and professional responsibilities. These policies, procedures and controls are designed to monitor and prevent violations of applicable independence rules and include, among other things, (1) informing our officers, directors and other members of senior management concerning auditor independence matters, (2) procedures for monitoring securities ownership, (3) communicating with SEC audit clients regarding the SEC's interpretation and application of relevant independence rules and guidelines, and (4) requiring RSM employees to comply with the Attest Firms' independence and relationship policies (including the Attest Firms' independence compliance questionnaire procedures). We believe these policies, procedures and controls are adequate, although there can be no assurances they will result in compliance with applicable independence rules and requirements. Any noncompliance could cause the Attest Firms to lose the ability to perform audits for firms subject to regulation by the SEC.

See discussion in "Risk Factors" for additional information.

INVESTMENT SERVICES

GENERAL – Our Investment Services segment provides advice-based brokerage services and investment planning through HRBFA to our clients in the U.S. Services offered to our customers include 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. Segment revenues constituted 5.9% of our consolidated revenues for fiscal year 2006, and 5.4% of our consolidated revenues for fiscal years 2005 and 2004.

HRBFA is a registered broker-dealer with the SEC and is a member of the New York Stock Exchange (NYSE), other national securities exchanges, Securities Investor Protection Corporation (SIPC), and the National Association of Securities Dealers, Inc. (NASD). HRBFA is also a registered investment advisor.

The integration of investment advice with our tax client base allows us to leverage an already established relationship. In the past three years, new service offerings have allowed us to shift our focus from a transaction-based client relationship to a more advice-based focus.

FINANCIAL SERVICES OFFERINGS – We offer a full range of financial services, including investment planning, college savings products, flexible brokerage accounts with cash management features, professionally managed accounts and a comprehensive line of insurance annuity products.

As previously discussed in "Tax Services," we offer our tax clients the opportunity to open an Express IRA through HRBFA as a part of the tax return preparation process. Clients opened approximately 67,000 Express IRAs during tax season 2006, approximately 106,500 in 2005 and approximately 145,400 in 2004.

We act as a dealer in fixed income securities including corporate and municipal bonds, various U.S. Government and U.S. Government Agency securities and certificates of deposit.

CUSTOMER ACTIVITY – Customer trades in fiscal year 2006 totaled approximately 1.0 million, compared to approximately 0.9 million in 2005 and approximately 1.0 million in 2004. Average revenue per trade was \$119.11 in fiscal year 2006, compared to \$123.33 in 2005 and \$119.36 in 2004. We had 418,162 traditional brokerage accounts at April 30, 2006, compared to 431,749 at 2005 and 463,736 at 2004. Assets under administration totaled \$31.8 billion, \$27.8 billion and \$26.7 billion at April 30, 2006, 2005 and 2004, respectively.

FINANCIAL ADVISORS – Key to our future success are retaining and recruiting productive financial advisors. One of our key initiatives in fiscal year 2006 was to build revenues by attracting and retaining productive advisors.

During fiscal years 2006, 2005 and 2004, we added 193, 258 and 255 advisors, respectively. These additions were offset by attrition of 257, 233 and 230 advisors, respectively. Our overall retention rate for fiscal year 2006 was approximately 75%, essentially flat with the prior year. The retention rate for our higher-producing advisors was approximately 87%, down from 92% in 2005. Advisor productivity by recruitment class is as follows:

(in 000s)

	Revenue Per Advisor	Total Production Revenues
FISCAL YEAR 2006 —		
Pre-2004 class	\$ 250	\$ 137,212
2004 recruits	157	19,579
2005 recruits	109	19,942
2006 recruits	111	13,741
FISCAL YEAR 2005 —		
Pre-2003 class	\$ 230	\$ 121,342
2003 recruits	114	16,416
2004 recruits	98	19,941
2005 recruits	65	8,203
FISCAL YEAR 2004 —		
Pre-2003 class	\$ 216	\$ 135,128
2003 recruits	84	17,717
2004 recruits	61	7,664

Financial advisors generally reach productivity levels equal to those achieved at their prior firm approximately 24 to 36 months after they join our company.

PARTNERING WITH TAX PROFESSIONALS – The H&R Block Preferred Partner ProgramSM facilitates strategic, referral-based partnerships between tax professionals and financial advisors. The program includes the Licensed Referral Tax Professional (LRTP) program and a non-licensed option, which allows non-licensed tax professionals to gain additional rewards and recognition when making qualified client referrals to financial advisor partners. The LRTP program helps tax professionals obtain a securities license, teaming them with a financial advisor and providing a commission to the LRTP for business referred to Investment Services.

As of April 30, 2006, our Preferred Partner Program had 9,552 active tax partners, of which 705 were licensed. We had 6,442 active tax partners, of which 686 were licensed at the end of fiscal year 2005. As a result of this initiative, we added more than 17,000 new customer accounts and assets totaling \$764.3 million during fiscal year 2006. We expect to continue to increase the number of tax partners in the coming year.

INTEGRATED ONLINE SERVICES – We have an online investment center on our website at www.hrblock.com. Online users have the opportunity to open accounts, obtain research, create investment plans, buy and sell securities, and view the status of their accounts.

OFFICE LOCATIONS – HRBFA is authorized to do business as a broker-dealer in all 50 states, the District of Columbia and Puerto Rico. At the end of fiscal year 2006, we operated 219 branch offices, compared to approximately 257 offices in 2005 and 358 in 2004. The reduced number of branch offices is primarily due to the evolution of our tax-partnering program, in which financial advisors are located in retail tax offices, and the consolidation of smaller branches. At April 30, 2006, we had 73 offices co-located with retail tax and mortgage offices. We believe the existence of these locations contributes to our growth and client satisfaction.

COMPETITIVE CONDITIONS – HRBFA competes directly with a broad range of companies seeking to attract consumer financial assets, including full-service brokerage firms, discount and online brokerage firms, mutual fund companies, investment banking firms, commercial and savings banks, insurance companies and others. The financial services industry has become more concentrated as numerous securities firms have been acquired by or merged into other firms. Some of these competitors have greater financial resources than HRBFA and offer additional financial services. In addition, we expect competition from domestic and international commercial banks and larger securities firms to continue to increase as a result of legislative and regulatory initiatives in the U.S., including the passage of the Gramm-Leach-Bliley Act in November 1999 and the implementation of the U.S.A. Patriot Act in April 2002. These initiatives strive to remove or relieve certain restrictions on mergers between commercial banks and other types of financial services providers and extend privacy provisions and anti-money laundering procedures across the financial services industry.

Discount brokerage firms and online-only financial services providers compete vigorously with HRBFA with respect to commission charges. Some full-commission brokerage firms also offer greater product breadth, discounted commissions and more robust online services to selected retail brokerage customers. Additionally, some competitors in both the full-commission and discount brokerage industries have substantially increased their spending on advertising and direct solicitation of customers.

Competition in the online trading business has become similarly intense as recent expansion and customer acceptance of conducting financial transactions online has attracted new brokerage firms to the market.

We compete based on expertise and integration with our tax services relationships, quality of service, breadth of services offered, prices, accessibility through delivery channels and technological innovation.

SEASONALITY OF BUSINESS – The Investment Services segment does not, as a whole, experience significant seasonal fluctuations. The securities business is cyclical, however, and directly affected by national and global economic and political conditions, trends in business and finance and changes in the conditions of the securities markets in which our clients invest, as well as fluctuating interest rates.

GOVERNMENT REGULATION – The securities industry is subject to extensive regulation, including registration of our offices and personnel, sales methods, the acceptance and execution of customer orders, the handling of customer funds and securities, trading practices, capital structure, record keeping policies and practices, margin lending, execution and settlement of transactions, the conduct of directors, officers and employees, and the supervision of employees. The various governmental authorities and industry self-regulatory organizations that have supervisory and regulatory jurisdiction over us generally have broad enforcement powers to censure, fine, issue cease-and-desist orders or suspend or expel a broker-dealer or any of its officers or employees who violate applicable laws or regulations.

The SEC is the federal agency responsible for the administration of the federal securities laws. The SEC has delegated much of the regulation of broker-dealers to self-regulatory organizations, principally the NASD, Municipal

Securities Rulemaking Board and the NYSE, which has been designated as HRBFA's primary regulator. These self-regulatory organizations adopt rules, subject to SEC approval, governing the industry and conduct periodic examinations of HRBFA's brokerage operations and clearing activities. Securities firms are also subject to regulation by state securities administrators in states in which they conduct business.

As a registered broker-dealer, HRBFA is subject to the Net Capital Rule (Rule 15c3-1) promulgated by the SEC and adopted through incorporation by reference in NYSE Rule 325. The Rule, which specifies minimum net capital requirements for registered brokers and dealers, is designed to measure the financial soundness and liquidity of a broker-dealer and requires at least a minimum portion of its assets be kept in liquid form. Additional discussion of this requirement and HRBFA's calculation of net capital is located in Item 7, under "Capital Resources and Liquidity by Segment."

See discussion in "Risk Factors" for additional information.

SERVICE MARKS, TRADEMARKS AND PATENTS –

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

We have no registered patents that are material to our business.

EMPLOYEES –

We have approximately 16,000 regular full-time employees. The highest number of persons we employed during the fiscal year ended April 30, 2006, including seasonal employees, was approximately 134,500.

AVAILABILITY OF REPORTS AND OTHER INFORMATION –

Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports filed with or furnished to the SEC are available, free of charge, through our website at www.hrblock.com as soon as reasonably practicable after such reports are electronically filed with or furnished to the SEC.

Copies of the following corporate governance documents are posted on our website: (1) The Amended and Restated Articles of Incorporation of H&R Block, Inc., (2) The Amended and Restated Bylaws of H&R Block, Inc., (3) The H&R Block, Inc. Corporate Governance Guidelines, (4) the H&R Block, Inc. Code of Business Ethics and Conduct, (5) the H&R Block, Inc. Audit Committee Charter, (6) the H&R Block, Inc. Governance and Nominating Committee Charter, and (7) the H&R Block, Inc. Compensation Committee Charter. If you would like a printed copy of any of these corporate governance documents, please send your request to the Office of the Secretary, H&R Block, Inc., 4400 Main Street, Kansas City, Missouri 64111.

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

ITEM 1A. RISK FACTORS

In this report, and from time to time throughout the year, we share our expectations for the Company’s future performance. The following explains the critical risk factors impacting our business and reasons actual results may differ from our expectations. This discussion does not intend to be a comprehensive list and there may be other risks and factors that may have an effect on our business.

LIQUIDITY AND CAPITAL – We use capital primarily to fund working capital requirements, pay dividends, repurchase shares of our common stock and acquire businesses. We are dependent on the use of our off-balance sheet arrangements to fund our daily non-prime originations and the secondary market to securitize and sell mortgage loans and residual interests. See Item 7, under “Off-Balance Sheet Financing Arrangements.” We are also dependent on commercial paper issuances and/or bank lines to fund RAL participations and seasonal working capital needs. A disruption in such markets could adversely affect our access to these funds. To meet our future financing needs, we may issue additional debt or equity securities.

LITIGATION – We are involved in lawsuits in the normal course of our business related to RALs, our Peace of Mind guarantee program, electronic filing of tax returns, Express IRAs, losses incurred by customers in their investment accounts, mortgage lending activities and other matters. Adverse outcomes related to litigation could result in substantial damages and could adversely affect our results of operations. Negative public opinion can also result from our actual or alleged conduct in such claims, possibly damaging our reputation and adversely affecting the market price of our stock. See Item 3, “Legal Proceedings” for additional information.

PRIVACY OF CLIENT INFORMATION – We manage highly sensitive client information in all of our operating segments, which is regulated by law. Problems with the safeguarding and proper use of this information could result in regulatory actions and negative publicity, which could adversely affect our reputation and results of operations.

INTERNAL CONTROL CERTIFICATION – We have documented and tested our internal control procedures in accordance with various SEC rules governing Section 404 of the Sarbanes-Oxley Act (SOX 404). SOX 404 requires us to assess the effectiveness of our internal controls over financial reporting annually, and obtain an opinion on the effectiveness of this internal control from our Independent Registered Public Accounting Firm. We may

encounter problems or delays in completing the review and evaluation, the implementation of improvements and the receipt of an attestation from our independent auditors. Additionally, management's assessment of our internal controls over financial reporting may identify deficiencies that need to be addressed in our internal controls over financial reporting or other matters that may raise concerns for investors. Should we, or our independent auditors, determine in future periods that we have a material weaknesses in our internal controls over financial reporting, our results of operations or financial condition may be adversely affected and the price of our common stock may decline.

OPERATIONAL RISK – There is a risk of loss resulting from inadequate or failed processes or systems, theft or fraud. These can occur in many forms including, among others, errors, business interruptions, inappropriate behavior of or misconduct by our employees or those contracted to perform services for us, and vendors that do not perform in accordance with their contractual agreements. These events can potentially result in financial losses or other damages. We rely on internal and external information and technological systems to manage our operations and are exposed to risk of loss resulting from breaches in the security, or other failures of these systems. Replacement of our major operational systems could have a significant impact on our ability to conduct our core business operations and increase our risk of loss resulting from disruptions of normal operating processes and procedures that may occur during the implementation of new information and transaction systems.

TAX SERVICES

COMPETITIVE POSITION – Increased competition for tax preparation clients in our retail offices, online and software channels could adversely affect our current market share and limit our ability to grow our client base. See clients served statistics included in Item 7, under "Tax Services."

REFUND ANTICIPATION LOANS – Changes in government regulation related to RALs could adversely affect our ability to offer RALs or our ability to purchase participation interests. Changes in IRS practices could adversely affect our ability to use the IRS debt indicator to limit our bad debt exposure. Changes in any of these, as well as possible litigation related to RALs, may adversely affect our results of operations. See discussion of RAL litigation in Item 3, "Legal Proceedings."

MORTGAGE SERVICES

COMPETITIVE POSITION – The majority of our mortgage loan applications are submitted through a network of brokers who have relationships with many other mortgage lenders. Unfavorable changes in our pricing, service or other factors could result in a decline in our mortgage origination volume. A decline in our servicer ratings could adversely affect our pricing and origination volume. Increased competition among mortgage lenders can also result in a decline in coupon rates offered to our borrowers, which in turn lowers margins and could adversely affect our gains on sales of mortgage loans.

MARKET RISKS – Our day-to-day operating activities of originating and selling mortgage loans have many aspects of interest rate risk. Additionally, the valuation of our retained residual interests and mortgage servicing rights includes many estimates and assumptions made by management surrounding interest rates, prepayment speeds and credit losses. Variation in interest rates or the factors underlying our assumptions could affect our results of operations. See Item 7A, under "Mortgage Services," for discussion of interest rate risk, and Item 7, under "Critical Accounting Policies," for discussion of our valuation methodology.

LEGISLATION AND REGULATION – Several states and cities are considering or have passed laws, regulations or ordinances aimed at curbing predatory lending and servicing practices. The federal government is also considering legislative and regulatory proposals in this regard. In general, these proposals involve lowering the existing federal HOEPA thresholds for defining a "high-cost" loan and establishing enhanced protections and remedies for borrowers who receive such loans. If unfavorable laws and regulations are passed, it could restrict our ability to originate loans. If rating agencies refuse to rate our loans, loan buyers may not want to purchase loans labeled as "high-cost," and it could restrict our ability to sell our loans in the secondary market. Accordingly, all of these items could adversely affect our results of operations.

In 2002, the Federal Reserve Board adopted changes to Regulation C promulgated under the HMDA. Among other things, the new regulations require lenders to report pricing data on loans with annual percentage rates that exceed the yield on treasury bills with comparable maturities by 3%. The expanded reporting was effective in 2004 for reports filed in 2005. We anticipate that a majority of our loans would be subject to the expanded reporting requirements. The expanded reporting does not provide for additional loan information such as credit risk, debt-to-income ratio, loan-to-value ratio, documentation level or other salient loan features. However, reported information may lead to increased litigation as the information could be misinterpreted by third parties and could adversely affect our results of operations.

COUNTERPARTY CREDIT RISK – Derivative instruments involve counterparty credit risk, which is the risk that a counterparty may fail to perform on its contractual obligations. We manage this risk through the use of a policy that includes

credit standard guidelines, counterparty diversification, monitoring of counterparty financial condition, use of master netting agreements with counterparties, and exposure limits based on counterparty credit, exposure amount and management risk tolerance. The policy is reviewed on an annual basis and as conditions warrant. See Item 7A, under “Mortgage Services,” and Item 8, note 8 to our consolidated financial statements for discussion of our derivative instruments.

REAL ESTATE MARKET – Our residual interests and beneficial interest in Trusts are secured by mortgage loans, which are in turn secured by residential real estate. Any material decline in real estate values would likely result in higher delinquencies, defaults and foreclosures. Additionally, a significant portion of the mortgage loans we originate or service is secured by properties in California. A decline in the economy or the residential real estate market values, or the occurrence of a natural disaster not covered by standard homeowners’ insurance policies, such as an earthquake, hurricane or wildfire, could decrease the value of mortgaged properties in California. Any sustained period of increased delinquencies, foreclosures or losses could harm our ability to originate and sell loans, the prices we receive on our loans, or the values of our mortgage servicing rights and residual interests in securitizations, which could adversely affect our financial condition and results of operations.

BUSINESS SERVICES

ALTERNATIVE PRACTICE STRUCTURE WITH ATTEST FIRMS – Our relationship with the Attest Firms requires us to comply with applicable regulations regarding the practice of public accounting and auditor independence rules and requirements. In addition, our relationship with the Attest Firms closely links our RSM McGladrey brand with the Attest Firms. If the Attest Firms were to encounter regulatory or independence issues resulting from their relationship with us or if significant litigation arose involving the Attest Firms or their services which implicated RSM McGladrey, our brand reputation and our ability to realize the mutual benefits of our relationship, such as the ability to attract and retain quality professionals, could be impaired.

INTEGRATION OF AMERICAN EXPRESS TAX AND BUSINESS SERVICES – The integration of American Express Tax and Business Services is proceeding according to plan. While we expect a successful integration, there is the potential that it could be delayed or otherwise impacted, which could adversely affect our financial condition and results of operations.

INVESTMENT SERVICES

REGULATORY ENVIRONMENT – The broker-dealer industry continues to come under increased scrutiny by federal and state regulators and self-regulatory organizations and, as a result, more focus has been placed on compliance issues. If we do not comply with these regulations, it could result in regulatory actions and negative publicity, which could adversely affect our results of operations and our ability to recruit and retain qualified advisors. Negative public opinion about our industry could damage our reputation even if we are in compliance with such regulations.

INTEGRATION INTO THE H&R BLOCK BRAND – We are working to foster an advice-based relationship with our tax clients through our retail tax office network. This advice-based relationship is key to the integration of Investment Services into the H&R Block brand and deepening our current client relationships. If we are unable to successfully integrate, it may significantly impact our ability to differentiate our business from other investment service providers and grow our client base.

RECRUITING AND RETENTION OF FINANCIAL ADVISORS – Attracting and retaining experienced financial advisors is extremely competitive in the investment industry. Additionally, in this industry, clients tend to follow their advisors, regardless of their affiliated investment firm. The inability to recruit and retain qualified and productive advisors, may adversely affect our results of operations.

RECURRING OPERATING LOSSES – Continuing operating losses in our Investment Services segment may impact the valuation of goodwill and intangible assets. Such losses could also necessitate additional capital contributions to comply with regulatory requirements. The inability to operate this segment in a profitable manner may adversely affect our results of operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We own our corporate headquarters, which is located in Kansas City, Missouri. We have leased additional office space for corporate, Tax Services and Investment Services personnel, as necessary, in Kansas City, Missouri.

Most of our tax offices, except those in shared locations, are operated under leases throughout the U.S. Our Canadian executive offices are located in a leased office in Calgary, Alberta. Our Canadian tax offices are operated under leases throughout Canada.

Option One’s executive offices are located in leased offices in Irvine, California. Option One also leases offices for its loan origination and servicing centers and branch office operations

throughout the U.S. HRBMC is headquartered in leased offices in Irvine, California. HRBMC also leases offices for its loan origination centers and branch office operations throughout the U.S.

The executive offices of HRBFA are located in leased offices in Detroit, Michigan. Branch offices are operated throughout the U.S., in a combination of leased and owned facilities.

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

We began construction of new corporate headquarters during fiscal year 2005, which will allow us to consolidate the majority of our Kansas City-based personnel into one facility. The new building will be located in downtown Kansas City, Missouri and we expect it to be completed in fiscal year 2007.

All current leased and owned facilities are in good repair and adequate to meet our needs.

ITEM 3. LEGAL PROCEEDINGS

The information below should be read in conjunction with the information included in Item 8, note 17 to our consolidated financial statements.

RAL LITIGATION – We have been named as a defendant in numerous lawsuits throughout the country regarding our refund anticipation loan programs (collectively, “RAL Cases”). The RAL Cases have involved a variety of legal theories asserted by plaintiffs. These theories include allegations that, among other things, disclosures in the RAL applications were inadequate, misleading and untimely; the RAL interest rates were usurious and unconscionable; we did not disclose that we would receive part of the finance charges paid by the customer for such loans; untrue, misleading or deceptive statements in marketing RALs; breach of state laws on credit service organizations; breach of contract, unjust enrichment, unfair and deceptive acts or practices; violations of the federal Racketeer Influenced and Corrupt Organizations Act; violations of the federal Fair Debt Collection Practices Act and unfair competition with respect to 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. We have successfully defended against numerous RAL Cases, some of which were dismissed on our motions for dismissal or summary judgment, and others were dismissed voluntarily by the plaintiffs after denial of class certification. Other cases have been settled, 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 (the “2006 Settlements”). The 2006 Settlements are described below.

On December 21, 2005, we entered into a settlement agreement regarding four RAL Cases entitled *Deadra D. Cummins, et al. v. H&R Block, Inc. et al.*; *Mitchell v. H&R Block, Inc. et al.*; *Green v. H&R Block, Inc. et al.*; and *Becker v. H&R Block, Inc.* (the “Cummins Settlement Agreement”). Pursuant to the Cummins Settlement Agreement, we will contribute a total of up to \$62.5 million in cash for purposes of making payments to the settlement class, paying all attorneys’ fees and costs to class counsel and covering service awards to the representative plaintiffs. In addition, we paid costs for providing notice of the settlement to settlement class members. We recorded an additional reserve of \$50.7 million related to this settlement in fiscal year 2006 to fully reserve for the settlement amount.

On April 19, 2006, we entered into a settlement agreement, subject to final court approval, regarding litigation entitled *Lynne A. Carnegie, et al. v. Household International, Inc., H&R Block, Inc., et al.* (the “Carnegie Settlement Agreement”). Pursuant to the Carnegie Settlement Agreement, we will contribute a total of \$19.5 million in cash for purposes of making payments to the settlement class, paying all attorneys’ fees and costs to class counsel, incentive payment awards to plaintiff and all notice and administration costs. We recorded a reserve of \$19.5 million related to this settlement in fiscal year 2006.

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. Likewise, there can be no assurances regarding the impact of the RAL Cases on our financial statements. We have accrued our best estimate of the probable loss related to the RAL Cases. The following is updated information regarding the pending RAL Cases that are attorney general actions or class actions or putative class actions:

Lynne A. Carnegie, et al. v. Household International, Inc., H&R Block, Inc., et al., (formerly Joel E. Zawikowski, et al. v. Beneficial National Bank, H&R Block, Inc., Block Financial Corporation, et al.) Case No. 98 C 2178, United States District Court for the Northern District of Illinois, Eastern Division, instituted on April 18, 1998. This case is stayed and will be resolved as part of the Carnegie Settlement Agreement.

Deadra D. Cummins, et al. v. H&R Block, Inc., et al., Case No. 03-C-134 in the Circuit Court of Kanawha County, West Virginia, instituted on January 22, 2003. The court approved the terms of the Cummins Settlement Agreement at a hearing held on June 8, 2006, and the settlement will become final upon the expiration of the period for objectors to appeal the court's approval.

Joyce Green, et al. v. H&R Block, Inc., Block Financial Corporation, et al., Case No. 97195023, in the Circuit Court for Baltimore City, Maryland, instituted on July 14, 1997; *Levon and GERAL Mitchell, et al. v. H&R Block, Inc. and Ruth Wren*, Case No. CV-95-2067, in the Circuit Court of Mobile County, Alabama, instituted on June 13, 1995; and *Lynn Becker v. H&R Block, Inc.*, Case No. CV-2004-03-1680 in the Court of Common Pleas, Summit County, Ohio, instituted on April 15, 2004. These cases are stayed and will be resolved as part of the Cummins Settlement Agreement.

Sandra J. Basile, et al v. H&R Block, Inc., et al, April Term 1992 Civil Action No. 3246 in the Court of Common Pleas, First Judicial District Court of Pennsylvania, Philadelphia County, instituted on April 23, 1993. The court decertified the class on December 31, 2003. The Pennsylvania appellate court subsequently reversed the trial court's decertification decision. We are seeking review of the appellate court's decision by the Pennsylvania Supreme Court.

The People of California v. H&R Block, Inc., H&R Block Services, Inc., H&R Block Enterprises, Inc., H&R Block Tax Services, Inc., Block Financial Corporation, HRB Royalty, Inc. and Does 1 through 50, Case No. C 06 2058 SC, in the United States District Court for the Northern District of California, instituted on February 15, 2006 (alleging, among other things, untrue, misleading or deceptive statements in marketing RALs and unfair competition with respect to debt collection activities; seeks equitable relief, civil penalties and restitution). The case was removed to federal court on March 17, 2006, and a motion was filed to add HSBC as a necessary party to the case. The California attorney general is seeking to remand the case to state court.

PEACE OF MIND LITIGATION – *Lorie J. Marshall, et al. v. H&R Block Tax Services, Inc., et al.*, Civil Action 2003L0000004, in the Circuit Court of Madison County, Illinois, is a class action case filed on January 18, 2002, that was granted class certification on August 27, 2003. Plaintiffs' claims consist of five counts relating to the Peace of Mind (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 (i) statutory fraud by selling insurance without a license, (ii) 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 (iii) 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 (i) were charged a separate fee for POM by "H&R Block" or a defendant H&R Block class member; (ii) 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 (iii) 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 are 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. The trial court subsequently denied the defendants' motion to certify class certification issues for interlocutory appeal. Discovery is proceeding. 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 being tried 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 action are without merit, and we intend to defend them vigorously. The amounts claimed in the POM actions are substantial, however, and there can be no assurances as to the outcome of these pending actions individually or in the aggregate. Likewise, there can be no assurances regarding the impact of these actions on our consolidated financial statements.

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 entitled *The People of New York v. H&R Block, Inc. and H&R Block Financial Advisors, Inc.* The complaint alleges fraudulent business practices, deceptive acts and practices, common law fraud and breach of fiduciary duty with respect to the Express IRA product. The complaint seeks equitable relief, disgorgement of profits, damages and restitution, civil penalties and punitive damages. A number of civil actions were subsequently filed against us concerning the matter. We intend to defend these cases vigorously, but there are no assurances as to their outcome.

SECURITIES AND SHAREHOLDER DERIVATIVE LITIGATION – Over a period of several weeks beginning on March 16, 2006, eight shareholder derivative actions were initiated against certain of the Company’s current and former directors and officers (two of which were subsequently dismissed voluntarily by the plaintiffs). These cases were purportedly brought on behalf of the Company, which is named as a “nominal defendant.” These cases generally involve allegations of breach of fiduciary duty, abuse of control, gross mismanagement, waste and unjust enrichment pertaining to (i) the Company’s restatement of financial results due to errors in determining the Company’s state effective income tax rate and (ii) certain of the Company’s products and other business activities. We intend to defend these cases vigorously, but there are no assurances as to their outcome. The shareholder derivative cases that currently have not been dismissed are *Hibbard v. H&R Block, Inc., et al.*, in the United States District Court for the Western District of Missouri, Case No. 5:06-cv-06059-RED (instituted on May 16, 2006); *Gottlieb v. H&R Block, et al.*, in the Circuit Court of Jackson County, Missouri, Case No. 0616-CV-14109 (instituted on June 5, 2006); *Lebowitz v. H&R Block, et al.*, in the Circuit Court of Jackson County, Missouri, Case No. 0616-CV-14124 (instituted on June 5, 2006); *Staehr v. H&R Block, Inc., et al.*, in the United States District Court for the Western District of Missouri, Case No. 4:06-cv-00284-GAF (instituted on April 5, 2006); *Momentum Partners v. H&R Block, et al.*, in the United States District Court for the Western District of Missouri, Case No. 06-cv-00465-SWH (instituted on June 8, 2006); and *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).

In addition to the shareholder derivative actions, five putative class actions alleging violations of certain securities laws were filed beginning in March 2006 (two of which were subsequently dismissed by the plaintiffs). These actions allege, 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 actions seek unspecified damages and equitable relief. We intend to defend these cases vigorously, but there are no assurances as to their outcome. The cases that have not been dismissed are *Nettie v. H&R Block, Inc. and Mark A. Ernst* in the United States District Court in the Western District of Missouri, Case No. 06-0235-CV-W-ODS (instituted on March 17, 2006); *Winters v. H&R Block, Inc., et al.*, in the United States District Court in the Western District of Missouri, Case No. 04:06-CV-00243-NKL (instituted on March 20, 2006); *New Jersey Carpenters Pension Fund v. H&R Block, Inc., et al.*, in the United States District Court in the Southern District of New York, Case No. 06-CV-2204-KMK (instituted on March 21, 2006); and *Kadagian v. H&R Block, Inc., et al.*, in the United States District Court in the Southern District of New York, Case No. 06-CV-2306-KMK (instituted on March 24, 2006).

OTHER CLAIMS AND LITIGATION – As reported previously, the NASD brought charges against HRBFA regarding the sale by HRBFA of Enron debentures in 2001. A hearing for this matter commenced in May 2006 and was recessed until the fall of 2006. We intend to defend the NASD charges vigorously, although there can be no assurances regarding the outcome and resolution of the matter.

As part of an industry-wide review, the IRS is investigating tax-planning strategies that certain RSM clients utilized during fiscal years 2000 through 2003. Specifically, the IRS is examining these strategies to determine whether RSM complied with tax shelter reporting and listing regulations and whether such strategies were abusive as defined by the IRS. If the IRS were to determine that RSM did not comply with the tax shelter reporting and listing regulations, it might assess fines or penalties against RSM. Moreover, if the IRS were to determine that the tax planning strategies were inappropriate, clients that utilized the strategies could face penalties and interest for underpayment of taxes. Some of these clients are seeking or may attempt to seek recovery from RSM. There can be no assurance regarding the outcome of and resolution of this matter.

We have from time to time been party to claims and lawsuits not discussed herein arising out of our business operations. These claims and lawsuits include actions by state attorneys general, individual plaintiffs, and cases in which plaintiffs seek to represent a class of similarly situated customers. The amounts claimed in these claims and lawsuits are substantial in some instances, and the ultimate liability with respect to such litigation and claims is difficult to predict. Some of these claims and lawsuits pertain to RALs, the electronic filing of customers’ income tax returns, the POM guarantee program and our Express IRA program. We believe we have meritorious defenses to each of these claims, and we are defending or intend to defend them vigorously, although there is no assurance as to their outcome.

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 (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, denials of mortgage loans, contested mortgage foreclosures, other aspects of the mortgage business, intellectual property disputes, employment matters and contract disputes. We believe we have meritorious defenses to each of the Other Claims, and we are defending them vigorously. 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 financial statements.

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

No matters were submitted to a vote of security holders during the fourth quarter of fiscal year 2006.

PART II

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

H&R Block's common stock is traded principally on the NYSE and is also traded on the Pacific Exchange. The information called for by this item with respect to H&R Block's common stock appears in Item 8, note 20 to our consolidated financial statements. The remaining information called for by this item relating to "Securities Authorized for Issuance under Equity Compensation Plans" is reported in Item 8, note 12 to our consolidated financial statements. On June 15, 2006, there were 24,935 shareholders of record and the closing stock price on the NYSE was \$23.50 per share.

A summary of our purchases of H&R Block common stock during the fourth quarter of fiscal year 2006 is as follows:

(shares in 000s)

	Total Number of Shares Purchased (2)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum Number of Shares that May Be Purchased Under the Plans or Programs (1)
February 1 – February 28	6	\$ 24.09	-	10,494
March 1 – March 31	1	\$ 25.17	-	10,494
April 1 – April 30	3	\$ 22.05	-	10,494

(1) On June 9, 2004, our Board of Directors approved the repurchase of 15 million shares of H&R Block common stock. This authorization has no expiration date.

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

ITEM 6. SELECTED FINANCIAL DATA

We derived the selected consolidated financial data presented below as of and for each of the five years in the period ended April 30, 2006 from our consolidated financial statements. The data set forth below should be read in conjunction with Item 7 and our consolidated financial statements in Item 8.

(in 000s, except per share amounts)

April 30,	2006	2005	2004	2003	2002
Revenues	\$4,872,801	\$4,420,019	\$4,247,880	\$3,731,126	\$3,311,943
Net income before change in accounting principle	490,408	623,910	700,452	477,615	441,287
Net income	490,408	623,910	694,093	477,615	441,287
Basic earnings per share:					
Net income before change in accounting principle	\$ 1.49	\$ 1.88	\$ 1.98	\$ 1.33	\$ 1.21
Net income	1.49	1.88	1.96	1.33	1.21
Diluted earnings per share:					
Net income before change in accounting principle	\$ 1.47	\$ 1.85	\$ 1.94	\$ 1.30	\$ 1.17
Net income	1.47	1.85	1.92	1.30	1.17
Total assets	\$5,989,135	\$5,538,056	\$5,233,827	\$4,666,502	\$4,396,731
Long-term debt	417,539	923,073	545,811	822,302	868,387
Dividends per share	\$ 0.49	\$ 0.43	\$ 0.39	\$ 0.35	\$ 0.32

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

We are a diversified company with subsidiaries delivering tax, investment, mortgage and business services and products. We are the only major company offering a full range of software, online and in-office tax preparation solutions, combined with personalized financial advice concerning retirement savings, home ownership and other opportunities to help clients build a better financial future.

Our key strategic priorities can be summarized as follows:

- Tax Services – expand access to our services through improved distribution of our digital offerings and expanding our network of retail offices, continue to improve the quality of service we provide to our clients.
- Mortgage Services – sustain market share while focusing on our cost structure to lower our cost of origination, distinguish our service quality, minimize risk and volatility in performance and optimize value from secondary markets.

- Business Services — continue expansion of our national accounting, tax and consulting business, complete the integration of our American Express Tax and Business Services acquisition, build and manage brand awareness, build differentiated and value-driven services and improve our client service culture.
- Investment Services — attract and retain productive advisors, serve the broad consumer market through advisory relationships, integrate the Tax Services client base into this segment and work to align the segment's cost structure with its revenues.

On February 22, 2006, we determined it was appropriate to restate our previously issued consolidated financial statements, including financial statements for the three and six months ended July 31, 2005 and October 31, 2005, respectively, and financial statements for the fiscal years ended April 30, 2005 and 2004 and all related interim periods. We arrived at this conclusion during the course of our closing process for the quarter ended January 31, 2006. All prior year periods presented reflect the impact of the restatement described above.

(in 000s, except per share amounts)

Consolidated Results of Operations

Year ended April 30,	2006	2005	2004
REVENUES –			
Tax Services	\$2,451,806	\$2,358,293	\$2,191,177
Mortgage Services	1,247,138	1,246,018	1,323,709
Business Services	877,259	573,316	499,210
Investment Services	287,955	239,244	229,470
Corporate	8,643	3,148	4,314
	\$4,872,801	\$4,420,019	\$4,247,880
PRETAX INCOME (LOSS) –			
Tax Services	\$ 589,766	\$ 663,518	\$ 638,493
Mortgage Services	321,616	496,093	688,523
Business Services	53,378	29,871	19,312
Investment Services	(32,835)	(75,370)	(75,614)
Corporate	(104,532)	(96,397)	(107,739)
	827,393	1,017,715	1,162,975
Income taxes	336,985	393,805	462,523
Net income before change in accounting principle	490,408	623,910	700,452
Cumulative effect of change in accounting principle	-	-	(6,359)
Net income	\$ 490,408	\$ 623,910	\$ 694,093
Basic earnings per share	\$ 1.49	\$ 1.88	\$ 1.96
Diluted earnings per share	1.47	1.85	1.92

CRITICAL ACCOUNTING POLICIES –

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

REVENUE RECOGNITION – We have many different revenue sources, each governed by specific revenue recognition policies. Our revenue recognition policies can be found in Item 8, note 1 to our consolidated financial statements. Additional discussion of our recognition of gains on sales of mortgage assets follows.

GAINS ON SALES OF MORTGAGE ASSETS – We sell substantially all of the non-prime mortgage loans we originate to the Trusts, which are qualifying special purpose entities (QSPEs), with servicing rights generally retained. Prime mortgage loans are sold in loan sales, servicing released, to third-party buyers. Gains on sales of mortgage assets are recognized when control of the assets is surrendered (when loans are sold to the Trusts) and are based on the difference between cash proceeds and the allocated cost of the assets sold, including any guarantees or recourse obligations. Other components of gain on sales of mortgage loans include gains or losses on derivatives, loan sale repurchase reserves and direct origination and acquisition expenses.

We determine the allocated cost of assets sold based on the relative fair values of cash proceeds, MSRs, any guarantee or recourse liabilities to be recorded at the date of sale and the beneficial interest in Trusts, which represents our residual interest in the ultimate expected outcome from the disposition of the loans by the Trusts. The relative fair value of the MSRs and the beneficial interest in Trust is determined using discounted cash flow models, which require various management assumptions, limited by the ultimate expected outcome from the disposition of the loans by the Trusts (see discussion below in “Valuation of Residual Interests” and “Valuation of Mortgage Servicing Rights”). The following is an example of a hypothetical gain on sale calculation:

	(in 000s)
Acquisition cost of underlying mortgage loans	\$ 1,000,000
Fair values:	
Net proceeds	\$ 995,000
Beneficial interest in Trusts	20,000
MSRs	7,000
	<u>\$ 1,022,000</u>
Computation of gain on sale:	
Net proceeds	\$ 995,000
Less allocated cost ($\$995,000 / \$1,022,000 \times \$1,000,000$)	973,581
Recorded gain on sale	<u>\$ 21,419</u>
Recorded beneficial interest in Trusts ($\$20,000 / \$1,022,000 \times \$1,000,000$)	<u>\$ 19,570</u>
Recorded value of MSRs ($\$7,000 / \$1,022,000 \times \$1,000,000$)	<u>\$ 6,849</u>

Variations in the assumptions we use affect the estimated fair values and the reported gains on sales. Gains on sales of mortgage loans totaled \$575.4 million, \$772.1 million and \$915.6 million for fiscal years 2006, 2005 and 2004, respectively.

See discussion in “Off-Balance Sheet Financing Arrangements” related to the disposition of the loans by the Trusts and subsequent securitization by the Company.

VALUATION OF RESIDUAL INTERESTS – We use discounted cash flow models to determine the estimated fair values of our residual interests. We develop our assumptions for expected credit losses, prepayment speeds, discount rates and interest rates based on historical experience and third-party market sources. Variations in our assumptions could materially affect the estimated fair values, which may require us to record impairments or unrealized gains. In addition, variations will also affect the amount of residual interest accretion recorded on a monthly basis. Available-for-sale (AFS) residual interests valued at \$159.1 million and \$205.9 million were recorded as of April 30, 2006 and 2005, respectively. We recorded \$35.3 million in net write-ups in other comprehensive income and \$34.1 million in impairments in the income statement related to these residual interests during fiscal year 2006 as actual performance differed from our assumptions. See Item 8, note 1 to our consolidated financial statements for our methodology used in valuing residual interests. See Item 8, note 5 to our consolidated financial statements for current assumptions and a sensitivity analysis of those assumptions. See Item 7A for sensitivity analysis related to interest rates.

VALUATION OF MORTGAGE SERVICING RIGHTS – MSRs are carried at the lower of cost or fair value. We use discounted cash flow models to determine the estimated fair values of our MSRs. Fair values take into account the historical prepayment activity of the related loans and our estimates of the remaining future cash flows to be generated through servicing the underlying mortgage loans. Variations in our assumptions could materially affect the estimated fair values, which may require us to record impairments.

Prepayment speeds are somewhat correlated with the movement of market interest rates. As market interest rates decline there is a corresponding increase in actual and expected borrower prepayments as customers refinance existing mortgages under more favorable interest rate terms. This in turn reduces the anticipated cash flows associated with servicing resulting in a potential reduction, or impairment, to the fair value of the capitalized MSR. Prepayment rates are estimated based on historical experience and third-party market sources. Many non-prime loans have a prepayment penalty in place for the first two to three years, which has the effect of making prepayment speeds more predictable, regardless of market interest rate movements. If actual prepayment rates prove to be higher than the estimate made by management, impairment of the MSRs could occur.

MSRs valued at \$272.5 million and \$166.6 million were recorded as of April 30, 2006 and 2005, respectively. See Item 8, note 1 to our consolidated financial statements for our methodology used in stratifying and valuing MSRs. See Item 8, note 5 to our consolidated financial statements for current assumptions and a sensitivity analysis of those assumptions.

VALUATION OF GOODWILL – Our goodwill impairment analysis is based on a discounted cash flow approach and market comparables, when available. This analysis, at the reporting unit level, requires significant management judgment with respect to revenue and expense forecasts, anticipated changes in working capital, and the selection and application of an appropriate discount rate. Changes in the projections or assumptions could materially affect fair values. The use of different assumptions would increase or decrease estimated discounted future operating cash flows and could effect our conclusions regarding the existence or amount of potential impairment.

Our goodwill balance was \$1.1 billion as of April 30, 2006 and \$1.0 billion as of April 30, 2005. No goodwill impairments were identified during fiscal years 2006, 2005 or 2004.

LITIGATION – Our policy is to routinely assess the likelihood of any adverse judgments or outcomes related to legal matters, as well as ranges of probable losses. A determination of the amount of the reserves required, if any, for these contingencies is made after thoughtful analysis of each known issue and an analysis of historical experience in accordance with Statement of Financial Accounting Standards No. 5, “Accounting for Contingencies,” and related pronouncements. Therefore, we have recorded reserves related to certain legal matters for which we believe it is probable that a loss has been incurred and the range of such loss can be estimated. With respect to other matters, we have concluded that

a loss is only reasonably possible or remote and, therefore, no liability is recorded.

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

We record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. We have considered taxable income in carry-back periods, historical and forecasted earnings, future taxable income, the mix of earnings in the jurisdictions in which we operate, and tax planning strategies in determining the need for a valuation allowance against our deferred tax assets. In the event we were to determine that we would not be able to realize all or part of our deferred tax assets in the future, an adjustment to the deferred tax assets would be charged to earnings in the period in which we make such determination. Likewise, if we later determine that it is more likely than not that the deferred tax assets would be realized, we would reverse the applicable portion of the previously provided valuation allowance.

The amount of income taxes we pay is subject to ongoing audits by federal, state and foreign tax authorities, which may result in proposed assessments. Our estimate for the potential outcome for any uncertain tax issue is highly judgmental. We believe we have adequately provided for any reasonably foreseeable outcome related to these matters. However, our future results may include favorable or unfavorable adjustments to our estimated tax liabilities in the period the assessments are made or resolved or when statutes of limitation on potential assessments expire. As a result, our effective tax rate may fluctuate on a quarterly basis.

OTHER SIGNIFICANT ACCOUNTING POLICIES –Other significant accounting policies, not involving the same level of judgment of uncertainty as those discussed above, are nevertheless important to an understanding of the financial statements. These policies may require judgments on complex matters that are often subject to multiple sources of authoritative guidance. Certain of these matters are among topics currently under reexamination by accounting standard setters and regulators. Although specific conclusions reached by these standard setters may cause a material change in our accounting policies, outcomes cannot be predicted with confidence. Also see Item 8, note 1 to our consolidated financial statements, which discusses accounting policies we have selected when there are acceptable alternatives, and new or proposed accounting standards that may affect our financial reporting in the future.

RESULTS OF OPERATIONS –

Our business is divided into four reportable segments: Tax Services, Mortgage Services, Business Services and Investment Services.

TAX SERVICES

This segment primarily consists of our income tax preparation businesses — retail, online and software. This segment includes our tax operations in the United States, Canada, Australia and the United Kingdom.

Tax Services – Operating Statistics

(in 000s, except average fee)

Year Ended April 30,	2006	2005 ⁽¹⁾	2004 ⁽¹⁾
CLIENTS SERVED –			
United States:			
Company-owned operations	10,359	10,608	10,627
Franchise operations	5,373	5,428	5,460
	15,732	16,036	16,087
Digital tax solutions ⁽²⁾	3,721	3,017	3,234
	19,453	19,053	19,321
International ⁽³⁾	2,459	2,333	2,253
	21,912	21,386	21,574
GROSS AVERAGE FEE PER CLIENT SERVED ⁽⁴⁾ –			
Company-owned operations	\$ 169.58	\$ 158.19	\$ 146.34
Franchise operations	143.52	135.98	127.91
	\$ 160.68	\$ 150.67	\$ 140.09
NET AVERAGE FEE PER CLIENT SERVED ⁽⁵⁾ –			
Company-owned operations	\$ 162.91	\$ 153.53	\$ 142.51
RALS⁽⁶⁾ –			
Company-owned operations	2,542	2,667	2,713
Franchise operations	1,487	1,499	1,508
	4,029	4,166	4,221

(1) Company-owned and franchise data for fiscal years 2005 and 2004 have not been restated for franchise acquisitions.

(2) Includes TaxCut federal units sold, online completed and paid federal returns, and state returns and e-filings only when no payment was made for a federal return.

(3) In the current year, the end of the Canadian tax season was extended from April 30 to May 1, 2006. Clients served in our international operations in fiscal year 2006 includes approximately 41,400 returns in both company-owned and franchise offices which were accepted by the client on May 1, 2006. The revenues related to these returns will be recognized in fiscal year 2007. In the prior year, the end of the Canadian tax season was extended to May 2, 2005. Clients served in our international operations in fiscal year 2005 includes approximately 47,500 returns which were accepted by the client on May 1 and 2, 2005. The revenues related to these returns were recognized in fiscal year 2006.

(4) Calculated as gross tax preparation and related fees divided by clients served (U.S. only).

(5) Calculated as gross tax preparation and related fees, less discounts and coupons, divided by clients served (U.S. only).

(6) Data is for tax season (January 1 – April 30) only.

Tax Services – Financial Results

(in 000s)

Year Ended April 30,	2006	2005	2004
Service revenues:			
Tax preparation and related fees	\$1,793,325	\$1,718,867	\$1,589,439
Other services	204,968	193,163	172,517
	1,998,293	1,912,030	1,761,956
Royalties	207,728	197,551	184,882
RAL participation fees	177,852	182,784	168,375
Other	67,933	65,928	75,964
Total revenues	2,451,806	2,358,293	2,191,177
Cost of services:			
Compensation and benefits	765,868	726,654	672,066
Occupancy	317,030	281,772	255,516
Supplies	52,894	47,703	40,792
Depreciation and amortization	44,846	54,579	48,808
Bad debt	31,927	33,046	27,328

Allocated shared services and other	102,711	103,560	92,137
	1,315,276	1,247,314	1,136,647
Provision for RAL litigation	70,200	-	-
Other, selling, general and administrative	476,564	447,461	416,037
Total expenses	1,862,040	1,694,775	1,552,684
Pretax income	\$ 589,766	\$ 663,518	\$ 638,493

FISCAL 2006 COMPARED TO FISCAL 2005 –Tax Services’ revenues increased \$93.5 million, or 4.0%, compared to the prior year. We opened more than 750 new offices, 550 of which were part of the expansion of our company-owned retail distribution network. This expansion contributed incremental revenues of \$36.4 million and pretax losses of \$8.5 million in fiscal year 2006.

Tax preparation and related fees from our retail offices increased \$74.5 million, or 4.3%, for fiscal year 2006. This increase is primarily due to an increase of 6.1% in the net average fee per U.S. client served, partially offset by a decrease of 2.3% in U.S. clients served in company-owned offices. The decrease in clients served was partially due to a number of technology problems that severely hurt the start of our filing season coupled with increased competition due to competitors’ refund lending products. Our international operations contributed \$18.1 million to the increase, resulting from a 5.4% increase in clients served.

Revenue from our digital business increased 8.2%, primarily due to a 23.3% increase in clients served, partially offset by planned reductions in unit prices.

Royalty revenue increased \$10.2 million, or 5.2%, due to a 5.5% increase in the gross average fee slightly offset by a 1.0% decline in clients served in franchise offices.

Revenues earned during fiscal year 2006 in connection with RAL participations decreased \$4.9 million, or 2.7%, from fiscal year 2005. This decrease is primarily due to a decrease in the number of RALs, which resulted from increased competition for clients in the early months of the tax season.

Total expenses increased \$167.3 million, or 9.9%, primarily due to \$70.2 million of legal reserves and related litigation fees recorded in the current year. During the current year we entered into two settlement agreements. The first was a settlement agreement regarding four separate RAL cases covering 22 states. We also entered into a settlement agreement with the plaintiffs in another RAL case. See additional discussion below and in Item 8, note 17 to the consolidated financial statements.

Cost of services for the current year increased \$68.0 million, or 5.4%, from the prior year. Our real estate expansion efforts have contributed to a total increase of \$43.5 million across all cost of services categories. Compensation and benefits increased \$39.2 million, or 5.4%, primarily due to an increase in staff needed for our new offices and the addition of costs related to our small business initiatives in the current year. Occupancy expenses increased \$35.3 million, or 12.5%, primarily as a result of higher rent expenses, due to a 9.5% increase in company-owned offices under lease and a 7.3% increase in the average rent. Depreciation declined \$9.7 million, or 17.8%, primarily due to decreased capital expenditures compared to the prior year.

Other, selling, general and administrative expenses increased \$29.1 million, or 6.5%, primarily due to a \$31.5 million increase in corporate shared services, \$20.7 million of which was related to our marketing efforts. We also incurred \$7.5 million in additional corporate wages and \$7.1 million in additional legal costs in the current year. During the fourth quarter of fiscal year 2006, we revised our estimate for the provision for bad debt related to our participation interests in RALs. This change decreased our provision for bad debt \$18.0 million during the fourth quarter of the current fiscal year. See additional discussion in Item 8, note 1 to the consolidated financial statements.

The pretax income for fiscal year 2006 decreased \$73.8 million, or 11.1%, from 2005, primarily due to the impact of the current year RAL litigation.

FISCAL 2005 COMPARED TO FISCAL 2004 – Tax Services’ revenues increased \$167.1 million, or 7.6%, compared to fiscal year 2004. In the U.S., we opened a net 1,252 new offices, 609 of which were part of the expansion of our company-owned retail distribution network. This expansion contributed incremental revenues of \$24.9 million and pretax losses of \$18.9 million in fiscal year 2005.

Tax preparation and related fees increased \$129.4 million, or 8.1%. This increase is primarily due to a 7.7% increase in the net average fee per U.S. client served, resulting from increases in our pricing and the complexity of returns prepared. Clients served in our U.S. company-owned offices declined 0.2% from fiscal year 2004.

Revenue from our digital business increased 7.9%, primarily due to price increases, partially offset by a 6.7% decrease in clients served.

Other service revenues increased \$20.6 million, or 12.0%, primarily as a result of additional revenues associated with RACs and Express IRAs.

Royalty revenues increased \$12.7 million, or 6.9%, primarily due to a 6.3% increase in the gross average fee per client served at our franchise offices.

Revenues earned during fiscal year 2005 in connection with RAL participations increased \$14.4 million, or 8.6%, over fiscal year 2004. This increase is primarily due to an increase in the dollar amount of loans in which we purchased participation interests, resulting from an increase in the fee charged by the lender, an increase in our clients’ average refund size and the maximum loan amount allowed by the lender.

Cost of services for fiscal year 2005 increased \$110.7 million, or 9.7%, over the prior year. Compensation and benefits increased \$54.6 million primarily due to increased revenues and an increase in the number of tax professionals and support staff needed in new office locations. Stock-based compensation related to our seasonal associates also increased \$4.1 million. Occupancy expenses increased \$26.3 million, or 10.3%, as a result of an 11.4% increase in U.S. company-owned offices under lease, which also drove increases in depreciation and amortization and supply costs. Of the total increase in occupancy expenses, \$10.7 million was due to our real estate expansion. Other cost of services increased \$11.4 million primarily due to additional expenses associated with our POM guarantee and Express IRAs.

Other, selling, general and administrative expenses increased \$31.4 million over fiscal year 2004 primarily due to increased spending related to an \$18.8 million increase in allocations from support departments and additional legal expenses of \$10.2 million.

Pretax income of \$663.5 million for fiscal year 2005 represents a 3.9% increase from the prior year. The segment's operating margin declined 100 basis points to 28.1% in fiscal year 2005.

RAL LITIGATION —On December 21, 2005, we entered into a settlement agreement regarding litigation pertaining to our RAL programs entitled *Deadra D. Cummins, et al. v. H&R Block, Inc. et al.*; *Mitchell v. H&R Block, Inc. et al.*; *Green v. H&R Block, Inc. et al.*; and *Becker v. H&R Block, Inc.* (the "Cummins Settlement Agreement"). Pursuant to the Settlement Agreement's terms, we will contribute a total of up to \$62.5 million in cash for purposes of making payments to the settlement class, paying all attorneys' fees and costs to class counsel, and covering service awards to the representative plaintiffs. In addition, we will pay costs for providing notice of the settlement to settlement class members. We increased existing reserves related to this matter, resulting in a pretax charge of \$50.7 million in fiscal year 2006.

On April 19, 2006, we entered into a settlement agreement, subject to final court approval, regarding litigation entitled *Lynne A. Carnegie, et al. v. Household International, Inc., H&R Block, Inc., et al.* (the "Carnegie Settlement Agreement"). Pursuant to the Carnegie Settlement Agreement, we will contribute a total of \$19.5 million in cash for purposes of making payments to the settlement class, paying all attorneys' fees and costs to class counsel, incentive payment awards to plaintiff and all notice and administration costs. We recorded a reserve of \$19.5 million related to this settlement in the third quarter of fiscal year 2006.

We are named as a defendant in one other class-action lawsuit and one state attorney general lawsuit alleging that we engaged in wrongdoing with respect to the RAL program. We believe we have strong defenses to the other lawsuits and will vigorously defend our position. Nevertheless, the amounts claimed in these lawsuits are, in some instances, very substantial, and there can be no assurances as to their ultimate outcome, or as to their impact on our financial statements. See additional discussion of RAL Litigation in Item 8, note 17 to the consolidated financial statements and in Part I, Item 3, "Legal Proceedings."

MORTGAGE SERVICES

This segment is primarily engaged in the origination of non-prime mortgage loans through an independent broker network, the origination of non-prime and prime mortgage loans through a retail office network, the sale and securitization of mortgage loans and residual interests, and the servicing of non-prime loans.

Mortgage Services – Operating Statistics

(dollars in 000s)

Year Ended April 30,	2006	2005	2004
VOLUME OF LOANS ORIGINATED –			
Wholesale (non-prime)	\$36,028,794	\$26,977,810	\$20,150,992
Retail:Non-prime	3,260,071	3,005,168	1,846,674
Prime	1,490,898	1,018,746	1,258,347
	\$40,779,763	\$31,001,724	\$23,256,013
NON-PRIME LOAN CHARACTERISTICS –			
Weighted average FICO score	622	614	608
Weighted average interest rate for borrowers (WAC)	7.87%	7.36%	7.39%
Weighted average loan-to-value	80.6%	78.9%	78.7%
Percentage with prepayment penalty	72.4%	70.8%	73.7%
ORIGINATION MARGIN (% OF ORIGINATION VOLUME) (1) –			
Loan sale premium	1.42%	2.77%	4.21%
Residual cash flows from beneficial interest in Trusts	0.51%	0.63%	0.72%
Gain (loss) on derivatives	0.35%	0.15%	(0.05%)
Loan sale repurchase reserves	(0.18%)	(0.13%)	(0.20%)
Retained MSRs	0.61%	0.44%	0.36%
	2.71%	3.86%	5.04%
Cost of acquisition	(0.37%)	(0.54%)	(0.50%)
Direct origination expenses	(0.58%)	(0.68%)	(0.65%)
Net gain on sale – gross margin (2)	1.76%	2.64%	3.89%
Other revenues	(0.02%)	0.03%	0.01%
Other cost of origination	(1.33%)	(1.55%)	(1.68%)
Net margin	0.41%	1.12%	2.22%
Total cost of origination	1.91%	2.23%	2.33%
Total cost of origination and acquisition	2.28%	2.77%	2.83%
LOAN DELIVERY –			
Loan sales	\$40,272,225	\$30,975,523	\$23,234,935
Execution price (3)	1.58%	3.01%	4.09%

Mortgage Services – Financial Results

(in 000s)

Year Ended April 30,	2006	2005	2004
Components of gains on sales:			
Gain on mortgage loans	\$ 575,402	\$ 772,061	\$ 915,628
Gain (loss) on derivatives	141,223	46,853	(11,957)
Gain on sales of AFS residual interests	31,463	15,396	40,689
Impairment of AFS residual interests	(34,107)	(12,235)	(26,063)
	713,981	822,075	918,297
Interest income:			
Accretion-residual interests	114,346	137,610	186,466
Other	18,722	11,850	5,064
	133,068	149,460	191,530
Loan-servicing revenue	398,992	273,056	211,710
Other	1,097	1,427	2,172
Total revenues	1,247,138	1,246,018	1,323,709
Cost of services	296,710	221,148	193,383
Cost of other revenues:			
Compensation and benefits	293,781	239,997	206,238
Occupancy	45,116	37,336	28,418
Other	105,494	78,769	55,265
	444,391	356,102	289,921
Selling, general and administrative	184,421	172,675	151,882

Total expenses	925,522	749,925	635,186
Pretax income	\$ 321,616	\$ 496,093	\$ 688,523

- (1) See "Reconciliation of Non-GAAP Financial Information" at the end of Item 7. Fiscal year 2006 excludes the impact of a restructuring charge.
- (2) Defined as gain on sale of mortgage loans (including gain or loss on derivatives, mortgage servicing rights and net of direct origination and acquisition expenses) divided by origination volume.
- (3) Defined as total premium received divided by total balance of loans delivered to third-party investors or securitization vehicles (excluding mortgage servicing rights and the effect of loan origination expenses).

FISCAL 2006 COMPARED TO FISCAL 2005 – Mortgage Services' revenues were essentially flat compared to the prior year, with higher loan servicing revenues and gains on derivatives offset by lower margins on mortgage loans sold and lower accretion.

The following table summarizes the key drivers of loan origination volumes and related gains on sales of mortgage loans:

Year Ended April 30,	2006	2005
Application process:		
Total number of applications	369,210	335,203
Number of sales associates ⁽¹⁾	2,814	3,526
Closing ratio ⁽²⁾	60.3%	58.3%
Originations:		
Total number of originations	222,749	195,392
WAC	7.87%	7.36%
Average loan size (all loans)	\$ 183	\$ 159
Total originations	\$40,779,763	\$31,001,724
Direct origination and acquisition expenses, net	\$ 387,911	\$ 378,674
Revenue (loan value):		
Net gain on sale – gross margin ⁽³⁾	1.76%	2.64%

(1) Includes all direct sales and back office sales support associates.

(2) Percentage of loans funded divided by total applications in the period.

(3) Defined as gain on sale of mortgage loans (including gain or loss on derivatives, mortgage servicing rights and net of direct origination and acquisition expenses) divided by origination volume.

Despite a 31.5% increase in loan origination volume, gains on sales of mortgage loans decreased \$196.7 million, primarily as a result of moderating demand by loan buyers and rising two-year swap rates. Market interest rates, based on the two-year swap, increased from an average of 3.32% last year to 4.63% in the current year. However, our WAC increased only 51 basis points, up to 7.87% from 7.36% in the prior year. Due to competitive market conditions, we were unable to align our WAC with increases in market rates. As such, our loan sale premium declined 135 basis points, to 1.42% from 2.77% last year. In the current year, we also increased our loss reserves \$11.6 million above our normal loss accrual, primarily related to repurchase activity related to early payment defaults, which reduced gains on sales of mortgage loans. The mortgage industry has seen an increase in early payment defaults over the past few months, and we have taken steps in reaction to our loss exposure.

The initial value of MSR's we recorded in fiscal year 2006 increased to 61 basis points from 44 basis points in the prior year, which resulted in an increase of \$113.0 million in gains on sales of mortgage loans. These increases were primarily due to higher origination volumes, average loan size and interest rates, coupled with updated valuation assumptions. During fiscal year 2006 we updated our assumptions used to value our MSR's. The assumptions were updated primarily to reflect lower servicing costs, in particular interest paid to bondholders on monthly loan prepayments, and higher discount rates. These changes in assumptions increased the weighted average value of MSR's recorded during fiscal year 2006 by approximately \$37.0 million (9 basis points of total retained MSR's of 61 basis points) over the prior year.

To mitigate the risk of short-term changes in market interest rates related to our loan originations and beneficial interest in Trusts, we use various derivative financial instruments. During the current year, we recorded a net \$141.2 million in gains, compared to \$46.9 million in the prior year, related to our interest rate swaps and other derivative instruments. This increase was primarily due to rising short-term interest rates and an increase in the average notional amount of swap arrangements to \$8.4 billion in the current year, compared to \$2.4 billion in fiscal year 2005. See Item 8, note 8 to the consolidated financial statements.

In fiscal year 2006, we completed sales of available-for-sale residual interests and recorded a gain of \$31.5 million. These sales accelerated cash flows from these residual interests, effectively realizing previously recorded unrealized gains included in other comprehensive income. We recorded a gain of \$15.4 million in the prior year on a similar transaction.

During fiscal year 2006, our available-for-sale residual interests performed better than expected in our internal valuation models, with lower credit losses than originally modeled, partially offset by higher than expected interest rates. We recorded favorable pretax mark-to-market adjustments, which increased the fair value of these residual interests \$53.3 million during the year. These adjustments were recorded, net of write-downs of \$18.0 million and deferred taxes of \$13.5 million, in other comprehensive income and will be accreted into income throughout the remaining life of the residual interests. Offsetting this increase were impairments of \$34.1 million, which were recorded in gains on sales of mortgage assets. Future changes in interest rates or other assumptions, based on market conditions or actual loan pool performance, could cause additional adjustments to the fair value of these residual interests and could cause changes to the accretion of these residual interests in future periods.

The following table summarizes the key metrics related to our loan servicing business:

(dollars in 000s)

Year Ended April 30,	2006	2005
Average servicing portfolio:		
With related MSRs	\$56,521,595	\$41,021,448
Without related MSRs	19,106,863	13,838,769
	\$75,628,458	\$54,860,217
Ending servicing portfolio:		
With related MSRs	\$62,910,568	\$47,543,982
Without related MSRs	10,471,509	20,450,482
	\$73,382,077	\$67,994,464
Number of loans serviced	441,981	435,290
Average delinquency rate	5.16%	4.85%
Weighted average FICO score	621	618
Weighted average interest rate (WAC) of portfolio	7.58%	7.46%
Weighted average rate earned	0.38%	0.36%
Carrying value of MSRs	\$ 272,472	\$ 166,614

Loan servicing revenues increased \$125.9 million, or 46.1%, compared to the prior year. The increase reflects a higher loan servicing portfolio resulting from our loan origination growth. The average servicing portfolio for the year increased \$20.8 billion, or 37.9%, to \$75.6 billion, even with lower volumes in our sub-servicing business. The weighted average rate earned on our entire servicing portfolio was 38 basis points for fiscal year 2006, compared to 36 basis points in the prior year.

Total expenses for the current year increased \$175.6 million, or 23.4%, from the prior year. Cost of services increased \$75.6 million, or 34.2%, mainly as a result of a higher average servicing portfolio during the current year and increased amortization of MSRs.

Cost of other revenues increased \$88.3 million over fiscal year 2005, and includes a \$12.6 million restructuring charge associated with the closing of some of our branch offices. See additional discussion of the restructuring charge in Item 8, note 16 to the consolidated financial statements. Compensation and benefits increased \$53.8 million primarily due to an increase in the average number of sales associates during the year to support higher loan volumes and the resulting increase in origination-based incentives, coupled with \$6.7 million in severance charges recorded as part of the restructuring. Occupancy expenses increased \$7.8 million primarily due to \$5.9 million in lease termination costs recorded as part of the restructuring. Other expenses increased \$26.7 million primarily as a result of \$20.1 million in additional interest expense related to mortgage loans held on our balance sheet and \$5.0 million of additional depreciation and amortization of our newly implemented origination and servicing software.

Selling, general and administrative expenses increased \$11.7 million primarily due to \$15.3 million in additional marketing expenses, \$5.1 million in additional occupancy costs and \$3.2 million in higher allocated shared services. These increases were partially offset by a \$15.7 million decline in compensation and benefits resulting from reductions in administrative and corporate headcount and lower bonus accruals.

Pretax income decreased \$174.5 million, or 35.2%, for fiscal year 2006.

FISCAL 2005 COMPARED TO FISCAL 2004 – Mortgage Services' revenues decreased \$77.7 million, or 5.9%, compared to fiscal year 2004. Revenues decreased primarily as a result of a decline in gains on sales of mortgage loans.

Although origination volumes increased 33.3% over fiscal year 2004, gains on sales of mortgage loans declined \$143.6 million as a result of increased price competition and poorer execution in the secondary market. As a result, our net margin declined to 1.12% from 2.22% in fiscal year 2004.

The average market interest rate for a 2-year swap increased to 3.32% in fiscal year 2005 from 1.97% in 2004, while our WAC decreased to 7.36% from 7.39% for the same periods. Because our WAC did not increase as quickly as market rates, our gross margin declined 125 basis points from fiscal year 2004. During fiscal year 2005, we recorded \$46.9 million in net gains, compared to a net loss of \$12.0 million in 2004, related to derivative instruments.

In fiscal year 2005, we completed a sale of available-for-sale residual interests and recorded a gain of \$15.4 million. We recorded a gain of \$40.7 million in the prior year on similar transactions.

Impairments of available-for-sale residual interests in securitizations of \$12.2 million were recognized during fiscal year 2005 compared with \$26.1 million in the prior year. The impairments in fiscal year 2004 were due primarily to loan performance of older residuals and changes in assumptions to more closely align with the economic and interest rate environment.

Total accretion of residual interests decreased \$48.9 million from fiscal year 2004. This decrease is primarily due to the sale of previously securitized residual interests during fiscal year 2004, which eliminated future accretion on those residual interests.

During fiscal year 2005, our available-for-sale residual interests continued to perform better than expected compared

to internal valuation models. We recorded favorable pretax mark-to-market adjustments, which increased the fair value of these residual interests \$154.3 million during fiscal year 2005. These adjustments were recorded, net of write-downs of \$58.3 million and deferred taxes of \$36.6 million, in other comprehensive income and will be accreted into income throughout the remaining life of these residual interests.

Loan-servicing revenues increased \$61.3 million, or 29.0%, over fiscal year 2004. The increase reflects a higher average loan-servicing portfolio. The average servicing portfolio for fiscal year 2005 increased 42.4%.

Cost of services increased \$27.8 million, or 14.4%, as a result of a higher average servicing portfolio, particularly loans with MSRs, which also resulted in an increase in MSR amortization.

Cost of other revenues increased \$66.2 million, or 22.8%, over fiscal year 2004. Compensation and benefits increased \$33.8 million as a result of a 25.4% increase in the number of employees, reflecting resources needed to support higher loan production volumes.

Selling, general and administrative expenses increased \$20.8 million, or 13.7%, due to \$12.1 million in increased retail marketing expenses and \$7.4 million in additional consulting expenses.

Pretax income for fiscal year 2005 decreased \$192.4 million, or 27.9%, from fiscal year 2004.

BUSINESS SERVICES

This segment offers middle-market companies accounting, tax and business consulting services, wealth management, retirement resources, payroll services, corporate finance and financial process outsourcing.

Business Services — Operating Statistics

Year Ended April 30,	2006	2005	2004
ACCOUNTING, TAX AND BUSINESS CONSULTING -			
Chargeable hours (000s)	4,357	2,898	2,598
Chargeable hours per person	1,385	1,430	1,414
Net billed rate per hour	\$ 141	\$ 133	\$ 124
Average margin per person	\$114,755	\$112,573	\$102,496

Business Services — Financial Results

Year Ended April 30,	2006	2005	2004
Service revenues:			
Accounting, tax and consulting	\$690,817	\$412,473	\$353,750
Capital markets	59,553	67,922	73,860
Payroll, benefits and retirement services	36,605	27,331	21,172
Other services	52,501	31,170	19,390
	839,476	538,896	468,172
Other	37,783	34,420	31,038
Total revenues	877,259	573,316	499,210
Cost of services:			
Compensation and benefits	471,619	310,950	256,640
Occupancy	56,870	24,699	20,498
Other	65,386	36,672	33,080
	593,875	372,321	310,218
Selling, general and administrative	230,006	171,124	169,680
Total expenses	823,881	543,445	479,898
Pretax income	\$ 53,378	\$ 29,871	\$ 19,312

FISCAL 2006 COMPARED TO FISCAL 2005 – Business Services' revenues for fiscal year 2006 increased \$303.9 million, or 53.0%, from the prior year. This increase was primarily due to the acquisition of American Express Tax and Business Services, Inc., which increased accounting, tax and consulting revenues \$251.3 million. The remaining \$27.1 million increase in tax, accounting and consulting revenues was primarily driven by increases in the net billed rate per hour and chargeable hours.

Capital markets revenues declined \$8.4 million due to a 36.0% decline in the number of business valuation projects. Payroll, benefits and retirement services revenues increased \$9.3 million primarily due to acquisitions completed during the third and fourth quarters of fiscal year 2005. Other service revenues increased \$21.3 million as a result of acquisitions completed in the fourth quarter of fiscal year 2005 in our financial process outsourcing business and growth in wealth management services.

Total expenses increased \$280.4 million, or 51.6%, for fiscal year 2006 compared to the prior year. Cost of services increased \$221.6 million, primarily due to a \$160.7 million increase in compensation and benefits. Compensation and benefits increased \$136.0 million due to the American Express Tax and Business Services, Inc. acquisition. In addition, baseline increases in the number of personnel and the average wage per employee, driven by marketplace competition for professional staff, also contributed to the increase. Occupancy expenses increased \$32.2 million and other cost of services increased \$28.7 million primarily due to acquisitions.

Selling, general and administrative expenses increased \$58.9 million primarily due to acquisitions and additional costs associated with our business development initiatives.

Pretax income for the year ended April 30, 2006 was \$53.4 million, compared to pretax income of \$29.9 million in the prior year.

FISCAL 2005 COMPARED TO FISCAL 2004 – Business Services’ revenues for fiscal year 2005 increased \$74.1 million, or 14.8%, from the prior year. This increase was primarily due to a \$58.7 million increase in accounting, tax and consulting revenues resulting from an 11.5% increase in chargeable hours and a 7.3% increase in the net billed rate per hour. The increase in chargeable hours is primarily due to strong demand for our tax and accounting services as well as our consulting and risk management services. This demand stems from the current business environment and the emphasis placed on the accounting industry.

Capital markets revenues declined \$5.9 million as a result of an 11.2% decrease in the number of business valuation projects. Payroll, benefits and retirement services revenues increased as a result of three acquisitions completed during the last half of fiscal year 2005.

Other service revenues increased \$11.8 million due to the acquisition of our financial process outsourcing business in the second quarter of fiscal year 2004, coupled with overall growth in this business. Increases in reimbursable expenses and contractor revenues also contributed to higher revenues.

Cost of services increased \$62.1 million, or 20.0%, for fiscal year 2005 compared to the prior year. Compensation and benefits related to our services increased \$54.3 million, primarily as a result of increases in the number of personnel and the average wage per employee. The increase in the average wage is being driven by marketplace competition for professional staff. Higher expenses are also attributable to investments we are making in early-stage businesses within this segment.

Pretax income for the year ended April 30, 2005 was \$29.9 million compared to \$19.3 million in fiscal year 2004.

INVESTMENT SERVICES

This segment is primarily engaged in offering advice-based brokerage services and investment planning. Our integration of investment advice and new service offerings are allowing us to shift our emphasis from a transaction-based client relationship to a more advice-based focus.

Investment Services – Operating Statistics

Year Ended April 30,	2006	2005	2004
Customer trades ⁽¹⁾	974,625	885,796	1,004,235
Customer daily average trades	3,883	3,529	3,923
Average revenue per trade ⁽²⁾	\$ 119.11	\$ 123.33	\$ 119.36
Customer accounts: ⁽³⁾			
Traditional brokerage	418,162	431,749	463,736
Express IRAs	442,157	380,539	366,040
	860,319	812,288	829,776
Ending balance of assets under administration (billions)	\$ 31.8	\$ 27.8	\$ 26.7
Average assets per traditional brokerage account	\$ 75,222	\$ 63,755	\$ 57,204
Average margin balances (millions)	\$ 539	\$ 597	\$ 545
Average customer payables balances (millions)	\$ 782	\$ 975	\$ 984
Number of advisors	958	1,010	1,009
Included in the numbers above are the following relating to fee-based accounts:			
Customer household accounts	9,224	7,668	6,964
Average revenue per account	\$ 2,535	\$ 2,301	\$ 1,572
Ending balance of assets under administration (millions)	\$ 2,526	\$ 1,975	\$ 1,494
Average assets per active account	\$274,981	\$260,238	\$ 214,537

⁽¹⁾ Includes only trades on which revenues are earned (“revenue trades”). Revenues are earned on both transactional and annuitized trades.

⁽²⁾ Calculated as total trade revenues divided by revenue trades.

⁽³⁾ Includes only accounts with a positive balance.

Investment Services – Financial Results

(in 000s)

Year Ended April 30,	2006	2005	2004
Service revenues:			
Transactional revenue	\$ 91,143	\$ 88,516	\$ 99,559
Annuitized revenue	99,331	77,386	60,950
Production revenue	190,474	165,902	160,509
Other services	32,256	29,206	35,619
	222,730	195,108	196,128
Margin interest revenue	60,795	43,698	33,408
Less: interest expense	(6,643)	(3,114)	(1,358)
Net interest revenue	54,152	40,584	32,050
Other	4,430	438	(66)

Total revenues ⁽¹⁾	281,312	236,130	228,112
Cost of services:			
Compensation and benefits	135,256	116,552	108,956
Occupancy	21,050	22,178	21,571
Other	21,132	19,555	24,091
	177,438	158,285	154,618
Selling, general and administrative	136,709	153,215	149,108
Total expenses	314,147	311,500	303,726
Pretax loss	\$ (32,835)	\$ (75,370)	\$ (75,614)

⁽¹⁾ Total revenues, less interest expense.

FISCAL 2006 COMPARED TO FISCAL 2005 —Investment Services' revenues, net of interest expense, for the fiscal year 2006 increased \$45.2 million, or 19.1%.

Total production revenue increased \$24.6 million, or 14.8%, over the prior year. Transactional revenue, which is based on sales of individual securities, increased \$2.6 million, or 3.0%, from the prior year due primarily to a 6.1% increase in transactional trading volume, partially offset by a 2.4% decrease in average revenue per transactional trade. Annuitized revenue, which is based on sales of various fee-based products, increased \$21.9 million, or 28.4%, due to increased sales of annuities and insurance, wealth management accounts, mutual funds, and unit investment trusts (UITs). The shift in revenues from transactional to annuitized demonstrates our continued move toward an advice-based focus.

Annualized productivity averaged approximately \$194,000 per advisor during the current year compared to \$166,000 in the prior year. Increased productivity was due to higher production levels across all recruiting classes. Minimum production standards put into place during the fourth quarter of fiscal year 2005 resulted in 111 advisors increasing their production. These standards also resulted in 152 low-producing advisors leaving the company. We expect average advisor productivity to continue increasing as we enforce minimum production standards, provide additional training to advisors and increase productivity levels of newly recruited advisors.

Margin interest revenue increased \$17.1 million, or 39.1%, from the prior year, as a result of higher interest rates earned, partially offset by a decline in average margin balances.

Total expenses increased \$2.6 million, or 0.8%. Cost of services increased \$19.2 million, or 12.1%, primarily as a result of \$18.7 million of additional compensation and benefits expenses resulting from higher production revenues.

Selling, general and administrative expenses decreased \$16.5 million, or 10.8%, primarily due to a \$4.8 million decline in legal expenses, due in part to a favorable arbitration outcome. Current year results also improved due to reduced back-office headcount relating to cost containment efforts and gains on the disposition of certain assets during the year. These decreases were partially offset by increased bonus accruals associated with the segment's improved performance.

The pretax loss for Investment Services for the year ended April 30, 2006 was \$32.8 million compared to the prior year loss of \$75.4 million.

FISCAL 2005 COMPARED TO FISCAL 2004 —Investment Services' revenues, net of interest expense, for fiscal year 2005 increased \$8.0 million, or 3.5%. The increase is primarily due to higher margin interest revenue.

Production revenue increased \$5.4 million, or 3.4% over fiscal year 2004. Transactional revenue decreased \$11.0 million, or 11.1%, from the prior year due primarily to an 18.7% decline in transactional trading volume. This decline was partially offset by an increase in the average revenue per trade. Annuitized revenue increased \$16.4 million, or 27.0%, due to increased sales of annuities, mutual funds and our fee-based wealth management accounts. Annuitized revenues represent 46.6% of total production revenues for fiscal year 2005, compared to 38.0% in the prior year. Advisor productivity averaged approximately \$166,000 in fiscal year 2005, essentially flat compared to the prior year.

Other service revenue declined \$6.4 million, or 18.0%, from fiscal year 2004 due to fewer fixed income underwriting offerings and Express IRA revenues now being recorded as part of Tax Services.

Margin interest revenue increased \$10.3 million, or 30.8%, from fiscal year 2004, which is primarily a result of higher interest rates earned, coupled with a 9.5% increase in average margin balances. Margin balances have increased from an average of \$545.0 million in fiscal year 2004 to \$597.0 million in fiscal year 2005.

Cost of services increased \$3.7 million, or 2.4%, primarily due to \$7.6 million of additional compensation and benefits resulting from a higher average commission rate than fiscal year 2004 and other financial incentives for attracting new advisors. This increase was partially offset by declines in depreciation and other expenses.

Selling, general and administrative expenses increased \$4.1 million, or 2.8%, over fiscal year 2004 primarily as the result of \$6.8 million in additional legal expenses, partially offset by gains of \$4.6 million on the disposition of certain assets.

The pretax loss for Investment Services for fiscal year 2005 was \$75.4 million compared to a loss of \$75.6 million in the prior year.

CORPORATE

Corporate support departments, which provide services to our operating segments consist of marketing, information technology, facilities, human resources, executive, legal, finance, government relations and corporate communications. Support department costs are generally allocated to our operating segments. Financial results for our captive insurance, franchise financing and banking subsidiaries are also included below, as was our small business initiatives subsidiary in fiscal year 2004.

Corporate – Financial Results

(in 000s)

Year Ended April 30,	2006	2005	2004
Operating revenues	\$ 22,279	\$ 13,592	\$ 12,532
Eliminations	(13,636)	(10,444)	(8,218)
Total revenues	8,643	3,148	4,314
Corporate expenses:			
Interest expense	67,630	72,701	69,300
Other	65,484	51,262	50,476
	133,114	123,963	119,776
Support departments:			
Marketing	137,065	117,303	110,507
Information technology	116,990	107,306	110,569
Finance	49,719	34,498	33,829
Other	122,232	107,562	78,593
	426,006	366,669	333,498
Allocation of shared services	(425,589)	(366,742)	(336,639)
Other income, net	20,356	24,345	4,582
Pretax loss	\$(104,532)	\$ (96,397)	\$(107,739)

FISCAL 2006 COMPARED TO FISCAL 2005 – Corporate expenses increased \$9.2 million primarily due to a \$14.2 million increase in other expenses, offset by a \$5.1 million decline in interest expense. Other expenses increased due to higher finance and information technology department expenses.

Our consolidated interest expense, both operating and non-operating, totaled \$103.8 million for fiscal year 2006, an increase of \$15.9 million over the prior year. Of the \$103.8 million in total interest, \$49.1 million related to debt incurred on previous acquisitions, with the remaining \$54.7 million related to our operations recorded directly in our operating segments.

Marketing department expenses increased \$19.8 million, or 16.8%, due primarily to an increase in digital advertising efforts. Information technology department expenses increased \$9.7 million primarily due to higher compensation and benefits associated with higher headcount. Finance department expenses increased \$15.2 million, primarily due to additional consulting expenses and increases in compensation expenses. Other support department expenses increased \$14.7 million primarily due to increases in stock-based compensation expenses and legal department expenses, partially offset by a decrease in supply department expenses.

Other income declined \$4.0 million primarily as a result of \$17.3 million in legal recoveries we received during the prior year, partially offset by other gains recorded in the current year.

The pretax loss was \$104.5 million, compared with last year's loss of \$96.4 million.

Our effective tax rate for the year increased to 40.7% compared to 38.7% in the prior year. This increase is due to higher deferred tax valuation allowances and increases in reserves for uncertain tax positions.

FISCAL 2005 COMPARED TO FISCAL 2004 – Corporate expenses increased \$4.2 million primarily due to higher interest expense, resulting from higher interest rates and higher average debt balances.

Marketing department expenses increased \$6.8 million, or 6.1%, primarily due to additional marketing efforts in fiscal year 2005. Other support department expenses increased \$29.0 million, primarily due to \$15.1 million of additional stock-based compensation expenses, increases in the cost of employee insurance and supplies.

Other income increased \$19.8 million primarily as a result of \$17.3 million in legal recoveries.

The pretax loss was \$96.4 million, compared with a loss of \$107.7 million in fiscal year 2004.

Our effective income tax rate for fiscal year 2005 decreased to 38.7% compared to 39.8% in fiscal year 2004. The decrease is due to tax benefits realized on net operating loss carryforwards.

FINANCIAL CONDITION -

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 shares of our common stock and acquire businesses.

CASH FROM OPERATIONS – Operating cash flows totaled \$585.7 million, \$513.8 million and \$852.5 million in fiscal years 2006, 2005 and 2004, respectively. Operating cash flows in fiscal year 2006 increased from fiscal year 2005 primarily due to lower income tax payments, which totaled \$270.5 million this year, compared to \$437.4 million in fiscal year 2005, partially offset by higher MSR balances and increased mortgage loans held for sale.

ISSUANCES OF COMMON STOCK – We issue shares of our common stock in accordance with our stock-based compensation plans out of our treasury shares. Proceeds from the issuance of common stock totaled \$108.5 million, \$136.1 million and \$120.0 million in fiscal years 2006, 2005 and 2004, respectively.

DEBT – On October 26, 2004, we issued \$400.0 million of 5.125% Senior Notes under our shelf registration statements. The proceeds from the notes were used to repay our \$250.0 million in 6¾% Senior Notes, which were due on November 1, 2004. The remaining proceeds were used for working capital, capital expenditures, repayment of other debt and other general corporate purposes.

DIVIDENDS – We have consistently paid quarterly dividends. Dividends paid totaled \$160.0 million, \$143.0 million and \$138.4 million in fiscal years 2006, 2005 and 2004, respectively.

SHARE REPURCHASES – On June 9, 2004, our Board of Directors approved an authorization to repurchase 15 million shares. This authorization is in addition to the authorization of 20 million shares on June 11, 2003. During fiscal year 2006, we repurchased 9.0 million shares pursuant to these authorizations at an aggregate price of \$254.2 million or an average price of \$28.18 per share. There were 10.5 million shares remaining under the 2004 authorization at the end of fiscal year 2006.

We plan to continue to purchase shares on the open market in accordance with the existing authorizations, subject to various factors including the price of the stock, our ability to maintain liquidity and financial flexibility, securities laws restrictions, targeted capital levels and other investment opportunities available.

ACQUISITIONS – From time to time we acquire businesses that are viewed to be a good strategic fit to our organization. Total cash paid for acquisitions was \$212.5 million, \$37.6 million and \$280.9 million during fiscal years 2006, 2005 and 2004, respectively. Acquisitions during fiscal year 2006 included American Express Tax and Business Services, Inc. Cash paid in fiscal year 2006 related to the acquisition of this business totaled \$190.7 million. Significant acquisitions during fiscal year 2004 were the former major franchise territories we now operate as company-owned. Cash paid in fiscal year 2004 related to the acquisition of these territories totaled \$243.2 million.

RESTRICTED CASH – We hold certain cash balances that are restricted as to use. Cash and cash equivalents - restricted totaled \$394.1 million at fiscal year end. Investment Services held \$369.0 million of this total segregated in a special reserve account for the exclusive benefit of customers pursuant to Rule 15c3-3 of the Securities Exchange Act of 1934. Restricted cash of \$16.4 million at April 30, 2006 held by Business Services is related to funds held to pay payroll and related taxes on behalf of its customers. Restricted cash held by Mortgage Services totaled \$8.4 million at April 30, 2006 for outstanding commitments to fund mortgage loans.

FISCAL YEAR 2007 OUTLOOK – We began construction on a new corporate headquarters facility during fiscal year 2005. Estimated remaining construction costs to be incurred during fiscal year 2007 of \$63.9 million will be financed from operating cash flows.

Our Board of Directors approved an increase of the quarterly cash dividend from 12.5 cents to 13.5 cents per share, an 8.0% increase, effective with the quarterly dividend payment on October 2, 2006 to shareholders of record on September 11, 2006. On June 7, 2006, our Board also approved an additional authorization to repurchase 20.0 million shares.

We plan to refinance our \$500.0 million in Senior Notes, which are due in April 2007.

The initial capital contribution for the H&R Block Bank will be \$160.0 million, which we transferred on May 1, 2006, with an additional \$10.0 million capital contribution planned during fiscal year 2007. H&R Block Bank is required to maintain a minimum leverage capital to total asset ratio of 12% during its first three years of operations.

A condensed consolidating statement of cash flows by segment for the fiscal year ended April 30, 2006 follows. Generally, interest is not charged on intercompany activities between segments. Detailed consolidated statements of cash flows are located in Item 8.

						(in 000s) Consolidated H&R Block
	Tax Services	Mortgage Services	Business Services	Investment Services	Corporate	
FISCAL YEAR 2006 –						
Cash provided by (used in):						
Operations	\$ 596,025	\$(123,903)	\$ 31,258	\$ 24,894	\$ 57,412	\$ 585,686
Investing	(62,797)	(309,302)	(221,122)	12,615	(107,899)	(688,505)
Financing	14,173	-	(23,611)	14,538	(308,136)	(303,036)
Net intercompany	(527,564)	422,418	233,744	(13,470)	(115,128)	-

Net intercompany activities are excluded from investing and financing activities within the segment cash flows. We believe that by excluding intercompany activities, the cash flows by segment more clearly depicts the cash generated and used by each segment. Had intercompany activities been included, those segments in a net lending situation would have been included in investing activities, and those in a net borrowing situation would have been included in financing activities.

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 the fourth quarter. Tax Services generated \$596.0 million in operating cash flows primarily related to net income, as cash is generally collected from clients at the time services are rendered. We also received a signing bonus from HSBC during the current year in connection with our new RAL participation agreement, which was recorded as deferred revenue at April 30, 2006.

Since July 1996, we have been a party to agreements with HSBC and its predecessors to participate in RALs provided by a lending bank to H&R Block tax clients. During fiscal year 2006, we signed a new agreement with HSBC under which HSBC and its designated bank will provide funding of all RALs offered through June 2011. If HSBC and its designated bank do not continue to provide funding for RALs, we could seek other RAL lenders to continue offering RALs to our clients or consider alternative funding strategies. We believe that a number of suitable lenders would be available to replace HSBC should the need arise.

We also believe that the RAL program is productive for the Company and a useful service for our customers. The RAL program is regularly reviewed both from a business perspective and to ensure compliance with applicable state and federal laws. It is our intention to continue to offer the RAL program in the foreseeable future.

Loss of the RAL program could adversely affect our operating results. In addition to the loss of revenues and income directly attributable to the RAL program, the inability to offer RALs could indirectly result in the loss of retail tax clients and associated tax preparation revenues, unless we were able to take mitigating actions. Total revenues related to the RAL program (including revenues from participation interests) were \$179.3 million for the year ended April 30, 2006, representing 3.7% of consolidated revenues and contributed \$106.5 million to the segment's pretax results. Revenues related to the RAL program totaled \$182.6 million for the year ended April 30, 2005, representing 4.1% of consolidated revenues and contributed \$101.3 million to the segment's pretax results.

Our international operations are generally self-funded. Cash balances are held in Canada, Australia and the United Kingdom independently in local currencies. H&R Block Canada, Inc. (Block Canada) has a commercial paper program for up to \$225.0 million (Canadian). At April 30, 2006, there was no commercial paper outstanding. The peak borrowing during fiscal year 2006 was \$133.0 million (Canadian).

MORTGAGE SERVICES – This segment primarily generates cash as a result of the sale and securitization of mortgage loans and residual interests and as its residual interests mature. Mortgage Services used \$123.9 million in cash from operating activities primarily due to higher MSR balances and mortgage loans held for sale. This segment also used \$309.3 million in cash from investing activities primarily related to loans originated for transfer to the H&R Block Bank, partially offset by cash received from the maturity and sales of available-for-sale residual interests. We regularly sell loans as a source of liquidity. Loan sales in fiscal year 2006 were \$40.3 billion compared with \$31.0 billion in fiscal year 2005. Additionally, Block Financial Corporation (BFC) provides a line of credit of at least \$150 million for working capital needs. At the end of fiscal year 2006 there was \$372.6 million outstanding on this facility.

WAREHOUSE FUNDING. See discussion of our non-prime warehouse facilities below in "Off-Balance Sheet Financing Arrangements."

To finance our prime mortgage loan originations, we use a warehouse facility with capacity up to \$25 million. This annual facility bears interest at one-month LIBOR plus 140 to 200 basis points. As of April 30, 2006 and 2005, the balance outstanding under this facility was \$1.6 million and \$4.4 million, respectively, and is included in accounts payable, accrued expenses and other current liabilities on the consolidated balance sheets.

We believe the sources of liquidity available to the Mortgage Services segment are sufficient for its needs. Risks to the stability of these sources include, but are not limited to, adverse changes in the perception of the non-prime industry, adverse changes in the regulation of non-prime lending, changes in the rating criteria of non-prime lending by third-party rating agencies and, to a lesser degree, reduction in the availability of third parties who provide credit enhancement. Past performance of the securitizations will also impact the segment's future participation in these markets. The off-balance sheet warehouse facilities used by the Trusts are subject to annual renewal, each at a different time during the year, and any of the above events could lead to difficulty in renewing the lines. These risks are mitigated by a staggering of the renewal dates related to these warehouse lines and through the use of multiple lending institutions to secure these lines.

BUSINESS SERVICES – Business Services funding requirements are largely related to receivables for completed work and “work in process.” We provide funding in the normal course of business sufficient to cover these working capital needs. Business Services also has future obligations and commitments, which are summarized in the tables below under “Contractual Obligations and Commercial Commitments.”

This segment generated \$31.3 million in operating cash flows primarily related to net income. Additionally, Business Services used \$221.1 million in investing activities primarily related to the acquisition of American Express Tax and Business Services, Inc. and contingent payments on prior acquisitions, and \$23.6 million in financing activities as a result of payments on acquisition debt.

INVESTMENT SERVICES – Investment Services, through HRBFA, is subject to regulatory requirements intended to ensure the general financial soundness and liquidity of broker-dealers.

HRBFA is required to maintain minimum net capital as defined under Rule 15c3-1 of the Securities Exchange Act of 1934 and complies with the alternative capital requirement, which requires a broker-dealer to maintain net capital equal to the greater of \$1,000,000 or 2% of the combined aggregate debit balances arising from customer transactions. The net capital rule also provides that equity capital may not be withdrawn or cash dividends paid if resulting net capital would be less than the greater of 5% of combined aggregate debit items or 120% of the minimum required net capital. At the end of fiscal year 2006, HRBFA's net capital of \$121.7 million, which was 22.9% of aggregate debit items, exceeded its minimum required net capital of \$10.6 million by \$111.1 million. During fiscal year 2006, H&R Block Financial Corporation, HRBFA's direct corporate parent, contributed \$5.0 million of additional capital to HRBFA. During fiscal year 2005, we contributed additional capital of \$27.0 million. HRBFA was in excess of the minimum net capital requirement during fiscal years 2006 and 2005, but we may continue to contribute additional capital in the future.

In fiscal year 2006, Investment Services provided \$24.9 million from its operating activities primarily due to improved performance.

To manage short-term liquidity, BFC provides HRBFA a \$300 million unsecured credit facility. At the end of fiscal year 2006 there was no outstanding balance on this facility.

HRBFA has a secured letter of credit with an unaffiliated financial institution with a credit limit of \$50.0 million. There were no borrowings on this letter of credit during fiscal years 2006 or 2005 and no outstanding balance at April 30, 2006 or 2005.

Liquidity needs relating to client trading and margin-borrowing activities are met primarily through cash balances in client brokerage accounts and working capital. We believe these sources of funds will continue to be the primary sources of liquidity for Investment Services. Stock loans have historically been used as a secondary source of funding and could be used in the future, if warranted.

Securities borrowed and securities loaned transactions are generally reported as collateralized financings. These transactions require us to deposit cash and/or collateral with the counterparty. Securities loaned consist of customers' securities purchased on margin. We receive cash collateral approximately equal to the value of the securities loaned. The amount of cash collateral is adjusted, as required, for market fluctuations in the value of the securities loaned. Interest rates paid on the cash collateral fluctuate as short-term interest rates change.

To satisfy the margin deposit requirement of client option transactions with the Options Clearing Corporation (OCC), HRBFA pledges customers' margined securities. Pledged securities at the end of fiscal year 2006 totaled \$53.0 million, an excess of \$9.9 million over the margin requirement. Pledged securities at the end of fiscal year 2005 totaled \$44.6 million, an excess of \$7.9 million over the margin requirement.

We believe the funding sources for Investment Services are stable. Liquidity risk within this segment is primarily limited to maintaining sufficient capital levels to obtain securities lending liquidity to support margin borrowing by customers.

OFF-BALANCE SHEET FINANCING ARRANGEMENTS

We are party to various transactions with an off-balance sheet component, including loan commitments and QSPEs, or Trusts.

We have commitments to fund mortgage loans of \$4.0 billion and \$4.2 billion at April 30, 2006 and 2005, respectively, which are subject to conditions and loan contract verification. There is no commitment on the part of the borrower to close on the mortgage loan at this stage of the lending process and external market forces impact the probability of these loan commitments being closed. Therefore, total commitments outstanding do not necessarily represent future cash requirements. If the loan commitments are exercised, they will be funded as described below.

Our relationships with the Trusts serve to reduce our capital investment in our non-prime mortgage operations. These arrangements are primarily used to sell mortgage loans, but a portion may also be used to sell servicing advances and finance residual interests. Additionally, these arrangements have freed up cash and short-term borrowing capacity, improved liquidity and flexibility, and reduced balance sheet risk, while providing stability and access to liquidity in the secondary market for mortgage loans.

Substantially all non-prime mortgage loans we originate are sold daily to the Trusts. The Trusts purchase the loans from us using nine committed warehouse facilities, arranged by us, totaling \$14.5 billion. These facilities are subject to various Option One performance triggers, limits and financial covenants, including tangible net worth and leverage ratios and may be subject to margin calls. In addition, these facilities contain cross-default features in which a default in one facility would trigger a default under the other facilities as well. These various facilities bear interest at one-month LIBOR plus 50 to 400 basis points and expire on various dates during the year. In addition, some of the facilities provide for the payment of minimum usage fees. Additional uncommitted facilities of \$1.5 billion bring total capacity to \$16.0 billion.

When we sell loans to the Trusts, we remove the mortgage loans from our balance sheet and record the gain on the sale, cash, MSR, recourse reserves and a beneficial interest in Trusts, which represents our residual interest in the ultimate expected outcome from the disposition of the loans by the Trusts. Our beneficial interest in Trusts totaled \$188.0 million and \$215.4 million at April 30, 2006 and 2005, respectively.

Subsequently, the Trusts, in response to the exercise of a put option by the third-party beneficial interest holders, either sell the loans directly to third-party investors or back to us to pool the loans for securitization. The decision to complete a loan sale or a securitization is dependent on market conditions.

For fiscal year 2006, the final disposition of loans sold by the Trusts was 77% loan sales and 23% securitizations. For fiscal year 2005, the final disposition of loans sold by the Trusts was 92% loan sales and 8% securitizations. The higher percentage of loan sale transactions versus securitizations is due to more favorable pricing in the loan sale market and also results in cash being received earlier. Additionally, loan sales do not add residual interests to our balance sheet, and therefore, we do not retain balance sheet risk.

If the Trusts sell the mortgage loans in a loan sale, we receive cash for our beneficial interest in Trusts. In a securitization transaction, the Trusts transfer the loans and the corresponding right to receive all payments on the loans to our consolidated special purpose entity, after which we transfer our beneficial interest in Trusts and the loans to a securitization trust. The securitization trust meets the definition of a QSPE and is therefore not consolidated. The securitization trust issues bonds, which are supported by the cash flows from the pooled loans, to third-party investors. We retain an interest in the loans in the form of a trading residual interest and, therefore, usually assume the first risk of loss for credit losses in the loan pool. As the cash flows of the underlying loans and market conditions change, the value of our trading residual interests may also change, resulting in potential write-ups or impairment of these residual interests.

At the settlement of each securitization, we record cash received and our residual interests. Additionally, we reverse the beneficial interest in Trusts. The resulting residual interests are classified as trading securities. See Item 8, note 1 to our consolidated financial statements for our methodology used in valuing our residual interests.

To accelerate the cash receipts from our residual interests, we securitize the majority of our trading residual interests in net interest margin (NIM) transactions. In a NIM transaction, the trading residual interests are transferred to another QSPE (NIM trust), which then issues bonds to third-party investors. The proceeds from the bonds are returned to us as payment for the trading residual interests. The bonds are secured by these pooled residual interests and are obligations of the NIM trust. We retain a subordinated interest in the NIM trust, and receive cash flows on our residual interest generally after the NIM bonds issued to the third-party investors are paid in full.

At the settlement of each NIM transaction, we remove the trading residual interests sold from our consolidated balance sheet and record the cash received and the new residual interest

retained. These new residual interests are classified as available-for-sale securities.

Available-for-sale residual interests retained from NIM securitizations may also be sold in a subsequent securitization or sale transaction.

In connection with the sale of mortgage loans, we provide certain representations and warranties allowing the purchaser the option of returning the purchased loans to us under certain conditions. We may recognize losses as a result of the repurchase of loans under these arrangements. We maintain reserves for the repurchase of loans based on historical trends. See Item 8, note 16 to our consolidated financial statements.

Loans totaling \$7.8 billion and \$6.7 billion were held by the Trusts as of April 30, 2006 and 2005, respectively, and were not recorded on our consolidated balance sheets. In August 2005, the Financial Accounting Standards Board (FASB) issued an exposure draft which amends Statement of Financial Accounting Standards No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." This exposure draft seeks to clarify the derecognition requirements for financial assets and the initial measurement of interests related to transferred financial assets that are held by a transferor. Our current off-balance sheet warehouse facilities (the Trusts) in our Mortgage Services segment would be required to be consolidated in our financial statements based on the provisions of the exposure draft. We will continue to monitor the status of the exposure draft. The final standard for this exposure draft is scheduled to be issued in the first quarter of calendar year 2007.

COMMERCIAL PAPER ISSUANCE

We participate in the U.S. and Canadian commercial paper (CP) markets to meet daily cash needs. CP is issued by BFC and Block Canada, wholly-owned subsidiaries of the Company. The following chart provides the debt ratings for BFC as of April 30, 2006:

	Short-term	Long-term	Outlook
Fitch	F1	A	Negative
Moody's	P2	A3	Stable
S&P	A2	BBB+	Stable
DBRS	R-1 (low)	A	Stable

The following chart provides the debt ratings for Block Canada as of April 30, 2006:

	Short-term	Long-term	Outlook
DBRS	R-1 (low)	A	Stable

We use capital primarily to fund working capital requirements, pay dividends, repurchase our shares and acquire businesses. Commercial paper borrowings peaked at \$2.3 billion in February 2006 related to funding of our participation interests in RALs. No CP was outstanding at April 30, 2006 or 2005.

U.S. CP issuances are supported by \$2.0 billion in unsecured committed lines of credit (CLOCs), which mature in August 2010 and have an annual facility fee of eight and one-half basis points per annum. These lines are subject to various affirmative and negative covenants, including a minimum net worth covenant.

We obtained an additional \$900.0 million line of credit for the period of January 3 to February 24, 2006 to back-up peak commercial paper issuance or use as an alternate source of funding for RAL participations. This line is subject to various covenants, substantially similar to the primary CLOCs.

These facilities were undrawn at April 30, 2006. There are no rating contingencies under the CLOCs.

The Canadian issuances are supported by a credit facility provided by one bank in an amount not to exceed \$225.0 million (Canadian). The Canadian CLOC is subject to annual renewal in December 2006. This CLOC was undrawn at April 30, 2006.

We believe the CP market to be stable. Risks to the stability of our CP market participation would be a short-term rating downgrade, adverse changes in our financial performance, non-renewal or termination of the CLOCs, adverse publicity and operational risk within the CP market. We believe if any of these events were to occur, the CLOCs, to the extent available, could be used for an orderly exit from the CP market, though at a higher cost to us. Additionally, we could turn to other sources of liquidity, including cash, debt issuance and asset sales or securitizations.

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

A summary of our obligations to make future payments as of April 30, 2006 is as follows:

	(in 000s)				
	Total	Less Than 1 Year	1 - 3 Years	4 - 5 Years	After 5 Years
Debt	\$ 897,426	\$ 499,425	\$ -	\$ -	\$ 398,001
Long-term obligation to government	183,937	107,849	74,692	1,396	-
Retirement obligation assumed	14,264	2,426	4,176	3,196	4,466
Acquisition payments	13,895	7,210	6,458	91	136
Capital lease obligation	13,209	357	860	1,043	10,949
Operating leases	856,816	269,890	371,984	157,123	57,819
Total contractual cash obligations	\$1,979,547	\$ 887,157	\$ 458,170	\$ 162,849	\$ 471,371

In October 2004, we issued \$400.0 million of 5.125% Senior Notes, due 2014. The Senior Notes are not redeemable by the bondholders prior to maturity. The net proceeds of this transaction were used to repay the \$250.0 million in 6 3/4% Senior Notes, which were due November 1, 2004. The remaining proceeds were used for working capital, capital expenditures, repayment of other debt and other general corporate purposes.

In April 2000, we issued \$500.0 million of 8 1/2% Senior Notes, due 2007. The Senior Notes are not redeemable prior to maturity. The net proceeds of this transaction were used to repay a portion of the short-term borrowings that initially funded the acquisition of OLDE Financial Corporation. We plan to refinance these Senior Notes when they come due.

As of April 30, 2006, we had \$850.0 million remaining under our shelf registration for additional debt issuances. As a result of our failure to file our Form 10-Q for the fiscal quarter ended January 31, 2006 by the SEC's prescribed due date, we will be unable to issue any debt securities under this shelf registration statement until April 2007.

Future payments related to acquisitions and capital lease obligations are included in long-term debt on our consolidated balance sheets.

In connection with our acquisition of the non-attest assets of M&P in August 1999, we assumed certain retirement liabilities related to M&P's partners. We make payments in varying amounts on a monthly basis, which are included in other noncurrent liabilities.

Operating leases, although requiring future cash payments, are not included in our consolidated balance sheets.

A summary of our commitments as of April 30, 2006, which may or may not require future payments, expire as follows:

	(in 000s)				
	Total	Less Than 1 Year	1 - 3 Years	4 - 5 Years	After 5 Years
Commitments to fund mortgage loans	\$4,032,045	\$ 4,032,045	\$ -	\$ -	\$ -
Commitments to sell mortgage loans	3,052,688	3,052,688	-	-	-
Franchise Equity Lines of Credit	75,909	18,860	29,958	27,091	-
Commitment to fund M&P	75,000	75,000	-	-	-
Construction of new building	63,887	63,887	-	-	-
Pledged securities	53,026	53,026	-	-	-
Other commercial commitments	31,282	8,209	19,888	3,185	-
Total commercial commitments	\$7,383,837	\$ 7,303,715	\$ 49,846	\$ 30,276	\$ -

See discussion of commitments in Item 8, note 16 to our consolidated financial statements.

REGULATORY ENVIRONMENT

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

From time to time in the ordinary course of business, we receive inquiries from governmental and self-regulatory agencies regarding the applicability of Laws to our services and products.

In response to past inquiries, we have agreed to comply with such Laws, convinced the authorities that such Laws were not applicable or that compliance already exists, and/or modified our activities in the applicable jurisdiction to avoid the application of all or certain parts of such Laws. We believe that the past resolution of such inquiries and our ongoing compliance with Laws have not had a material adverse effect on our consolidated financial statements. We cannot predict what effect future Laws, changes in interpretations of existing Laws, or the results of future regulator inquiries with respect to the applicability of Laws may have on our consolidated financial statements. See additional discussion of legal matters in Item 3, “Legal Proceedings” and Item 8, note 17 to our consolidated financial statements.

NEW ACCOUNTING PRONOUNCEMENTS

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

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, by excluding certain items that do not represent results from our basic operations. 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.

Origination Margin				(dollars in 000s)
Year Ended April 30,	2006	2005	2004	
Total Mortgage Services expenses	\$ 925,522	\$ 749,925	\$ 635,186	
Add: Expenses netted against gain on sale revenues	387,911	378,304	267,780	
Less:				
Cost of services	296,710	221,148	193,383	
Cost of acquisition	150,981	169,621	114,707	
Allocated support departments	26,176	24,161	21,124	
Other	62,500	20,323	31,378	
Total cost of origination	\$ 777,066	\$ 692,976	\$ 542,374	
Divided by origination volume	\$40,779,763	\$31,001,724	\$23,256,013	
Cost of origination margin	1.91%	2.23%	2.33%	

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

GENERAL

INTEREST RATE RISK –We have a formal investment policy to help minimize the market risk exposure of our cash equivalents and available-for-sale securities, which are primarily affected by credit quality and movements in interest rates. These guidelines focus on managing liquidity and preserving principal and earnings. Most of our interest rate-sensitive assets and liabilities are managed at the subsidiary level.

Our cash equivalents are primarily held for liquidity purposes and are comprised of high quality, short-term investments, including qualified money market funds. As of April 30, 2006, our non-restricted cash and cash equivalents had an average maturity of less than three months with an average credit quality of AAA. With such a short maturity, our portfolio’s market value is relatively insensitive to interest rate changes. We hold investments in fixed income securities at our captive insurance subsidiary. See the table below for sensitivities to changes in interest rates. See additional discussion of interest rate risk included below in Mortgage Services and Investment Services.

At April 30, 2006, no commercial paper was outstanding. For fiscal year 2006, the average issuance term was 33 days and the average outstanding balance was \$558.4 million. As commercial paper and bank borrowings are seasonal, interest rate risk typically increases through our third fiscal quarter and declines to zero by fiscal year-end. See Item 7, “Financial Condition” for additional information.

Our current portion of long-term debt and long-term debt at April 30, 2006 consists primarily of fixed-rate Senior Notes; therefore, a change in interest rates would have no impact on consolidated pretax earnings. See Item 8, note 9 to our consolidated financial statements.

EQUITY PRICE RISK –We have exposure to the equity markets in several ways. The largest exposure, though relatively small, is through our deferred compensation plans. Within the deferred compensation plans we have mismatches in asset and liability amounts and investment choices (both fixed-income and equity). At April 30, 2006 and 2005, the impact of a 10% market value change in the combined equity assets held by our deferred compensation plans and other equity investments would be approximately \$11.6 million and \$9.3 million, respectively, assuming no offset for the liabilities.

TAX SERVICES

FOREIGN EXCHANGE RATE RISK – Our operations in international markets are exposed to movements in currency exchange rates. The currencies involved are the Canadian dollar, the Australian dollar and the British pound. We translate revenues and expenses related to these operations at the average of exchange rates in effect during the period. Assets and liabilities of foreign subsidiaries are translated into U.S. dollars at exchange rates prevailing at the end of the year. Translation adjustments are recorded as a separate component of other comprehensive income in stockholders' equity. Translation of financial results into U.S. dollars does not presently materially affect, and has not historically materially affected, our consolidated financial results, although such changes do affect the year-to-year comparability of the operating results in U.S. dollars of our international businesses. We estimate a 10% change in foreign exchange rates by itself would impact consolidated pretax income in fiscal years 2006 and 2005 by approximately \$2.1 million and \$1.3 million, respectively, and cash balances at April 30, 2006 and 2005 by \$6.1 million and \$4.7 million, respectively.

MORTGAGE SERVICES

INTEREST RATE RISK – NON-PRIME ORIGINATIONS – Interest rate changes impact the value of the loans underlying our beneficial interest in Trusts, on our balance sheet or in our origination pipeline, as well as residual interests in securitizations and MSRs.

As a result of loan sales to the Trusts, we remove the mortgage loans from our balance sheet and record the gain on sale, cash, MSRs, recourse reserves and a beneficial interest in Trusts, which represents our residual interest in the ultimate expected outcome from the disposition of the loans by the Trusts. See Item 7, "Off-Balance Sheet Financing Arrangements." At April 30, 2006, there were \$7.8 billion of loans held in the Trusts and the value of our beneficial interest in Trusts was \$188.0 million. At April 30, 2006, we had \$236.4 million of mortgage loans held for sale and \$407.5 million of mortgage loans held for investment on our balance sheet. Changes in interest rates and other market factors may result in a change in value of our beneficial interest in Trusts, mortgage loans held for sale and mortgage loans held for investment.

We are exposed to interest rate risk associated with commitments to fund approved loan applications of \$4.0 billion, subject to conditions and loan contract verification. In addition, we have interest rate risk related to \$1.0 billion in new loan applications which have not yet been approved, and \$3.0 billion of applications which we expect to receive prior to our next anticipated change in rates charged to borrowers. Of these amounts, we estimate only \$5.1 billion will likely be originated.

We use forward loan sale commitments, interest rate swaps and put options on Eurodollar futures to reduce our interest rate risk associated with non-prime loans. Forward loan sale commitments represent an obligation to sell a non-prime loan at a specific price in the future and increase in value as rates rise and decrease as rates fall. At April 30, 2006, there were \$3.1 billion in forward loan sale commitments, and most of them give us the option to under- or over-deliver by five to ten percent. Forward loan sale commitments lock in the execution price on the loans that will be ultimately delivered into a loan sale. At April 30, 2006, we recorded an asset of \$2.0 million reflecting the fair value of these instruments.

Interest rate swaps represent an agreement to exchange interest rate payments, whereby we pay a fixed rate and receive a floating rate. Put options on Eurodollar futures represent the right to sell a Eurodollar futures contract at a specified price in the future. These swap and put option contracts increase in value as rates rise and decrease in value as rates fall. At April 30, 2006, the interest rate swaps and put options provided interest risk coverage of \$9.9 billion. At April 30, 2006, we had assets recorded at fair values of \$8.8 million and \$3.3 million on our balance sheet related to interest rate swaps and put options, respectively.

See table below for sensitivities to changes in interest rates.

INTEREST RATE RISK – PRIME ORIGINATIONS – At April 30, 2006, we had commitments to fund prime mortgage loans totaling \$83.2 million. We regularly enter into rate-lock commitments with our customers to fund prime mortgage loans within specified periods of time. The fair value of rate-lock commitments is calculated based on the current market pricing of short sales of FNMA, FHLMC and GNMA mortgage-backed securities and the coupon rates of the eligible loans. At April 30, 2006, we recorded a liability at a fair value of \$0.3 million related to rate-lock commitments.

We sell short FNMA, FHLMC and GNMA mortgage-backed securities to reduce the risk related to our prime commitments to fund fixed-rate prime loans. The position on certain, or all, of the fixed-rate mortgage loans is closed approximately 10-15 days prior to standard Public Securities Association (PSA) settlement dates. At April 30, 2006 we recorded an asset of \$0.8 million related to these instruments.

To finance our prime originations, we use a warehouse facility with capacity up to \$25 million, which bears interest at one-month LIBOR plus 140 to 200 basis points. As of April 30, 2006, the balance outstanding under this facility was \$1.6 million.

DELIVERY RISK – We have exposure to delivery risk in our non-prime origination operations, which regularly enter into forward loan sale commitments prior to loans being originated. It is possible that we will be unable to originate the loans or that the loans originated will not meet the required characteristics of the forward loan sale commitments. Several remedies are available, although use of the remedies could reduce the execution price or the effectiveness of the forward loan sale commitment in reducing interest rate risk.

RESIDUAL INTERESTS – Relative to modeled assumptions, an increase or decrease in interest rates would impact the value of our residual interests and could affect accretion income related to our residual interests. Residual interests bear the interest rate risk embedded within the securitization due to an initial fixed-rate period on the loans versus a floating-rate funding cost. Residual interests also bear the on-going risk that the floating interest rate earned after the fixed period on the mortgage loans is different from the floating interest rate on the bonds sold in the securitization.

We enter into interest rate caps and swaps to mitigate interest rate risk associated with mortgage loans that will be securitized and residual interests that are classified as trading securities because they will be sold in a subsequent NIM transaction. The caps and swaps enhance the marketability of the securitization and NIM transactions. An interest rate cap represents a right to receive cash if interest rates rise above a contractual strike rate, its value therefore increases as interest rates rise. The interest rate used in our interest rate caps and the floating rate used in swaps are based on LIBOR. At April 30, 2006 we had no assets or liabilities recorded related to interest rate caps.

See table below for sensitivities to changes in interest rates for residual interests, caps and swaps. See Item 8, note 5 to the consolidated financial statements for additional analysis of interest rate risk and other financial risks impacting residual interests.

It is our policy to use derivative instruments only for the purpose of offsetting or reducing the risk of loss associated with a defined or quantified exposure.

MORTGAGE SERVICING RIGHTS –Declining interest rates may cause increased refinancing activity, which reduces the life of the loans underlying the residual interests and MSRs, thereby generally reducing their fair value. The fair value of MSRs generally increases in a rising rate environment, although MSRs are recorded at the lower of cost or market value. Reductions in the fair value of these assets impact earnings through impairment charges. See Item 8, note 5 to our consolidated financial statements for further sensitivity analysis of other MSR valuation assumptions.

INVESTMENT SERVICES

INTEREST RATE RISK –HRBFA holds interest bearing receivables from customers, brokers, dealers and clearing organizations, which consist primarily of amounts due on margin transactions and are generally short-term in nature. We fund these short-term assets with short-term variable rate liabilities from customers, brokers and dealers, including stock loan activity. Although there may be differences in the timing of the re-pricing related to these assets and liabilities, we believe we are not significantly exposed to interest rate risk in this area. As a result, any change in interest rates would not materially impact our consolidated earnings.

Our fixed-income trading portfolio is affected by changes in market rates and prices. The risk is the loss of income arising from adverse changes in the value of the trading portfolio. We value the trading portfolio at quoted market prices and the market value of our trading portfolio at April 30, 2006 was approximately \$16.1 million, net of \$0.5 million in securities sold short. See table below for sensitivities to changes in interest rates. With respect to our fixed-income securities portfolio, we manage our market price risk exposure by limiting concentration risk, maintaining minimum credit quality and limiting inventory to anticipated retail demand and current market conditions.

The sensitivities of certain financial instruments to changes in interest rates as of April 30, 2006 and 2005 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.

(in 000s)										
	Carrying Value at April 30, 2006	Basis Point Change								
		-300	-200	-100	-50	+50	+100	+200	+300	
Mortgage loans held for investment	\$ 407,538	\$ 16,285	\$ 10,885	\$ 5,485	\$ 2,785	\$ (2,672)	\$ (5,301)	\$ (9,592)	\$ (15,020)	
Mortgage loans held for sale	236,399	9,253	6,113	3,057	1,528	(1,549)	(3,146)	(6,356)	(8,866)	
Beneficial interest in Trusts – trading	188,014	298,013	199,029	100,039	50,542	(51,789)	(103,365)	(189,389)	(270,970)	
Residual interests in securitizations – available-for-sale	159,058	32,692	13,543	4,795	2,503	(4,181)	(8,798)	(17,931)	(21,232)	
Fixed income – trading (net)	15,609	4,323	2,617	1,174	509	(751)	(1,359)	(2,368)	(3,274)	
Interest rate swaps	8,831	(523,639)	(344,606)	(170,090)	(84,500)	83,466	165,791	327,397	484,929	
Investments at captive insurance subsidiary	8,508	1,260	814	395	195	(189)	(372)	(723)	(1,054)	
Put options on Eurodollar futures	3,282	-	10	347	1,183	8,549	15,671	31,539	47,955	
Forward loan sale commitments	1,961	(158,345)	(105,563)	(52,782)	(26,391)	26,391	52,782	105,563	158,345	

	Carrying Value at April 30, 2005	Basis Point Change								
		-200	-100	-50	+50	+100	+200	+300		
Residual interests in securitizations – available-for-sale	\$ 205,936	\$ 84,845	\$ 30,417	\$ 13,637	\$ (13,520)	\$ (28,174)	\$ (51,466)	\$ (75,296)		
Interest rate caps	12,458	-	205	4,580	20,746	29,262	46,751	64,195		
Investments at captive insurance subsidiary	9,968	1,079	522	256	(248)	(487)	(942)	(1,368)		
Fixed income – trading (net)	6,252	1,958	893	426	(390)	(749)	(1,383)	(1,921)		
Interest rate swaps	(1,325)	(84,723)	(43,024)	(19,524)	19,524	43,024	84,723	123,771		

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

DISCUSSION OF FINANCIAL RESPONSIBILITY –

We at H&R Block are guided by our core values of client focus, integrity, excellence, respect and teamwork. These values govern the manner in which we serve clients and each other, and are embedded in the execution and delivery of our responsibilities to our shareholders. H&R Block's Management is responsible for the integrity and objectivity of the information contained in this document. Management is responsible for the consistency of reporting this information and for ensuring that accounting principles generally accepted in the United States are used. In discharging this responsibility, Management maintains an extensive program of internal audits and requires the management teams of our individual subsidiaries to certify their respective financial information. Our system of internal control over financial reporting also includes formal policies and procedures, including a Code of Business Ethics and Conduct program designed to encourage and assist all employees and directors in living up to high standards of integrity.

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

KPMG LLP audited our consolidated financial statements. Their audits were conducted in accordance with the standards of the Public Company Accounting Oversight Board (U.S.).

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING –

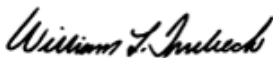
Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). Under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in “Internal Control – Integrated Framework” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) as of April 30, 2006.

Based on our assessment, management concluded that, as of April 30, 2006, the Company's internal control over financial reporting was effective based on the criteria set forth by COSO. The Company's external auditors, KPMG, LLP, an independent registered public accounting firm, have issued an audit report on our assessment of the Company's internal control over financial reporting.



Mark A. Ernst

Chairman of the Board, President and Chief Executive Officer



William L. Trubeck

Executive Vice President and Chief Financial Officer

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM –

The Board of Directors and Stockholders of H&R Block, Inc.:

We have audited the accompanying consolidated balance sheets of H&R Block, Inc. and its subsidiaries (the Company) as of April 30, 2006 and 2005, and the related consolidated statements of income and comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended April 30, 2006. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of H&R Block, Inc. and its subsidiaries as of April 30, 2006 and 2005, and the results of their operations and their cash flows for each of the years in the three-year period ended April 30, 2006, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting to adopt Emerging Issues Task Force Issue No. 00-21, “Revenue Arrangements with Multiple Deliverables,” during the year ended April 30, 2004.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of April 30, 2006, based on criteria established in *Internal Control–Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated June 29, 2006 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.



Kansas City, Missouri
June 29, 2006

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM –

The Board of Directors and Stockholders of H&R Block, Inc.:

We have audited management's assessment, included in the accompanying *Management's Report On Internal Control Over Financial Reporting (Item 9A(b))*, that H&R Block, Inc. and subsidiaries (the Company) maintained effective internal control over financial reporting as of April 30, 2006, based on criteria established in *Internal Control–Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

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

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

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that H&R Block, Inc. and subsidiaries maintained effective internal control over financial reporting as of April 30, 2006, is fairly stated, in all material respects, based on criteria established in *Internal Control–Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, H&R Block, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of April 30, 2006, based on criteria established in *Internal Control–Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of H&R Block, Inc. and subsidiaries as of April 30, 2006 and 2005, and the related consolidated statements of income and comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended April 30, 2006, and our report dated June 29, 2006 expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP

Kansas City, Missouri
June 29, 2006

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(Amounts in 000s, except per share amounts)

Year Ended April 30,	2006	2005	2004
REVENUES –			
Service revenues	\$3,463,111	\$2,920,586	\$2,639,367
Other revenues:			
Gains on sales of mortgage assets, net	713,981	822,075	918,297
Product and other revenues	492,502	478,443	460,421
Interest income	203,207	198,915	229,795
	4,872,801	4,420,019	4,247,880
OPERATING EXPENSES –			
Cost of services	2,383,299	1,999,068	1,794,866
Cost of other revenues	522,992	448,021	382,518
Selling, general and administrative	1,112,585	920,677	846,157
	4,018,876	3,367,766	3,023,541
Operating income	853,925	1,052,253	1,224,339
Interest expense	49,059	62,367	71,218
Other income, net	22,527	27,829	9,854
Income before taxes	827,393	1,017,715	1,162,975
Income taxes	336,985	393,805	462,523
Net income before change in accounting principle	490,408	623,910	700,452
Cumulative effect of change in accounting principle for multiple deliverable revenue arrangements, less tax benefit of \$4,031	-	-	(6,359)
NET INCOME	\$ 490,408	\$ 623,910	\$ 694,093
BASIC EARNINGS PER SHARE –			
Before change in accounting principle	\$ 1.49	\$ 1.88	\$ 1.98
Cumulative effect of change in accounting principle	-	-	(0.02)
Net income	\$ 1.49	\$ 1.88	\$ 1.96
DILUTED EARNINGS PER SHARE –			
Before change in accounting principle	\$ 1.47	\$ 1.85	\$ 1.94
Cumulative effect of change in accounting principle	-	-	(0.02)
Net income	\$ 1.47	\$ 1.85	\$ 1.92
COMPREHENSIVE INCOME –			
Net income	\$ 490,408	\$ 623,910	\$ 694,093
Unrealized gains on securities, net of taxes:			
Unrealized holding gains arising during the period, less taxes of \$13,585, \$36,670, and \$64,174	22,059	59,409	103,886
Reclassification adjustment for gains included in income, less taxes of \$40,846, \$40,661 and \$67,561	(66,188)	(65,848)	(109,385)
Change in foreign currency translation adjustments	(2,641)	8,946	12,355
	\$ 443,638	\$ 626,417	\$ 700,949

See accompanying notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS –

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

April 30,	2006	2005
ASSETS		
CURRENT ASSETS –		
Cash and cash equivalents	\$ 694,358	\$ 1,100,213
Cash and cash equivalents – restricted	394,069	516,909
Receivables from customers, brokers, dealers and clearing organizations, less allowance for doubtful accounts of \$1,783 and \$1,151	496,577	590,226
Receivables, less allowance for doubtful accounts of \$64,480 and \$34,201	503,188	341,706
Mortgage loans held for sale	236,399	77,082
Prepaid expenses and other current assets	499,356	444,498
Total current assets	2,823,947	3,070,634
Residual interests in securitizations – available-for-sale	159,058	205,936
Beneficial interest in Trusts – trading	188,014	215,367
Mortgage servicing rights	272,472	166,614
Mortgage loans held for investment, net	407,538	-
Property and equipment, net	443,785	330,150
Intangible assets, net	219,494	247,092
Goodwill, net	1,100,452	1,015,947
Other assets	374,375	286,316
Total assets	\$ 5,989,135	\$ 5,538,056
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES –		
Current portion of long-term debt	\$ 506,992	\$ 25,545
Accounts payable to customers, brokers and dealers	781,303	950,684
Accounts payable, accrued expenses and other current liabilities	768,505	564,749
Accrued salaries, wages and payroll taxes	330,946	318,644
Accrued income taxes	505,690	375,174
Total current liabilities	2,893,436	2,234,796
Long-term debt	417,539	923,073
Other noncurrent liabilities	530,361	430,919
Total liabilities	3,841,336	3,588,788
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY –		
Common stock, no par, stated value \$0.01 per share, 800,000,000 shares authorized, 435,890,796 shares issued at April 30, 2006 and 2005	4,359	4,359
Convertible preferred stock, no par, stated value \$0.01 per share, 500,000 shares authorized	-	-
Additional paid-in capital	653,053	598,388
Accumulated other comprehensive income	21,948	68,718
Retained earnings	3,492,059	3,161,682
Less treasury shares, at cost	(2,023,620)	(1,883,879)
Total stockholders' equity	2,147,799	1,949,268
Total liabilities and stockholders' equity	\$ 5,989,135	\$ 5,538,056

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS –

(Amounts in 000s)

Year Ended April 30,	2006	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES –			
Net income	\$ 490,408	\$ 623,910	\$ 694,093
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	191,703	183,867	179,131
Provision for bad debt	39,746	52,221	53,663
Provision for deferred taxes on income	(43,409)	(40,023)	(2,081)
Accretion of residual interests in securitizations	(114,346)	(137,610)	(186,466)
Impairment of available-for-sale residual interests in securitizations	34,107	12,235	26,063
Realized gain on sale of previously securitized residual interests	(31,463)	(15,396)	(40,689)
Additions to trading residual interests in securitizations, net	(350,861)	(115,657)	(327,996)
Proceeds from net interest margin transactions	295,159	98,743	310,358
Additions to mortgage servicing rights	(250,537)	(137,510)	(84,274)
Amortization and impairment of mortgage servicing rights	144,679	84,717	69,718
Stock-based compensation	57,020	44,139	25,718
Cumulative effect of change in accounting principle	-	-	6,359
Changes in assets and liabilities, net of acquisitions:			
Cash and cash equivalents – restricted	122,840	28,519	(107,186)
Receivables from customers, brokers, dealers and clearing organizations	88,954	33,892	(108,846)
Receivables	(136,121)	(121,177)	26,294
Mortgage loans held for sale:			
Originations and purchases	(40,358,579)	(31,003,456)	(23,255,483)
Sales and principal repayments	40,256,802	30,990,566	23,246,815
Prepaid expenses and other current assets	(61,948)	(53,858)	26,978
Beneficial interest in Trusts	47,015	(61,549)	(17,222)
Accounts payable to customers, brokers and dealers	(169,381)	(115,109)	203,099
Accounts payable, accrued expenses and other current liabilities	130,274	113,419	(104,563)
Accrued salaries, wages and payroll taxes	(5,643)	38,277	70,521
Accrued income taxes	101,093	(20,281)	110,021
Other non-current liabilities	125,482	26,527	35,965
Other, net	(17,308)	4,387	2,473
Net cash provided by operating activities	585,686	513,793	852,463
CASH FLOWS FROM INVESTING ACTIVITIES –			
Available-for-sale securities:			
Purchases of available-for-sale securities	(9,216)	(10,175)	(11,434)
Cash received from residual interests in securitizations	80,539	136,045	193,606
Cash proceeds from sale of previously securitized residuals	62,396	16,485	53,391
Sales of other available-for-sale securities	11,218	9,752	15,410
Mortgage loans originated and held for investment, net	(407,538)	-	-
Purchases of property and equipment, net	(250,510)	(209,458)	(123,826)
Payments made for business acquisitions, net of cash acquired	(212,543)	(37,621)	(280,865)
Other, net	37,149	36,562	26,332
Net cash used in investing activities	(688,505)	(58,410)	(127,386)
CASH FLOWS FROM FINANCING ACTIVITIES –			
Repayments of commercial paper and other short-term borrowings	(7,048,881)	(5,941,623)	(4,618,853)
Proceeds from issuance of commercial paper and other short-term borrowings	7,048,881	5,941,623	4,618,853
Repayments of Senior Notes	-	(250,000)	-
Proceeds from issuance of Senior Notes	-	395,221	-
Payments on acquisition debt	(26,819)	(25,664)	(59,003)
Dividends paid	(160,031)	(142,988)	(138,397)
Acquisition of treasury shares	(260,312)	(530,022)	(519,862)
Proceeds from issuance of common stock	108,507	136,102	119,956
Other, net	35,619	(10,564)	31,681
Net cash used in financing activities	(303,036)	(427,915)	(565,625)
Net increase (decrease) in cash and cash equivalents	(405,855)	27,468	159,452
Cash and cash equivalents at beginning of the year	1,100,213	1,072,745	913,293

Cash and cash equivalents at end of the year	\$ 694,358	\$ 1,100,213	\$ 1,072,745
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See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY –

(Amounts in 000s, except per share amounts)

	Common Stock		Convertible Preferred Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock		Total Equity
	Shares	Amount	Shares	Amount				Shares	Amount	
Balances at April 30, 2003	435,891	\$ 4,359	-	\$ -	\$ 494,213	\$ 59,355	\$ 2,125,064	(76,688)	\$ (1,093,593)	\$ 1,589,398
Net income	-	-	-	-	-	-	694,093	-	-	694,093
Unrealized translation gain	-	-	-	-	-	12,355	-	-	-	12,355
Change in net unrealized gain on marketable securities	-	-	-	-	-	(5,499)	-	-	-	(5,499)
Stock-based compensation expense	-	-	-	-	25,718	-	-	-	-	25,718
Shares issued for:										
Stock options	-	-	-	-	21,585	-	-	7,856	117,975	139,560
Restricted shares	-	-	-	-	385	-	-	145	2,103	2,488
ESPP	-	-	-	-	984	-	-	255	3,821	4,805
Acquisition of treasury shares	-	-	-	-	-	-	-	(21,266)	(519,862)	(519,862)
Cash dividends paid – \$0.39 per share	-	-	-	-	-	-	(138,397)	-	-	(138,397)
Balances at April 30, 2004	435,891	4,359	-	-	542,885	66,211	2,680,760	(89,698)	(1,489,556)	1,804,659
Net income	-	-	-	-	-	-	623,910	-	-	623,910
Unrealized translation gain	-	-	-	-	-	8,946	-	-	-	8,946
Change in net unrealized gain on marketable securities	-	-	-	-	-	(6,439)	-	-	-	(6,439)
Stock-based compensation expense	-	-	-	-	44,139	-	-	-	-	44,139
Shares issued for:										
Stock options	-	-	-	-	15,892	-	-	6,959	124,263	140,155
Restricted shares	-	-	-	-	(5,718)	-	-	352	6,098	380
ESPP	-	-	-	-	1,190	-	-	301	5,338	6,528
Acquisition of treasury shares	-	-	-	-	-	-	-	(22,564)	(530,022)	(530,022)
Cash dividends paid – \$0.43 per share	-	-	-	-	-	-	(142,988)	-	-	(142,988)
Balances at April 30, 2005	435,891	4,359	-	-	598,388	68,718	3,161,682	(104,650)	(1,883,879)	1,949,268
Net income	-	-	-	-	-	-	490,408	-	-	490,408
Unrealized translation loss	-	-	-	-	-	(2,641)	-	-	-	(2,641)
Change in net unrealized gain on marketable securities	-	-	-	-	-	(44,129)	-	-	-	(44,129)
Stock-based compensation expense	-	-	-	-	57,020	-	-	-	-	57,020
Shares issued for:										
Stock options	-	-	-	-	5,831	-	-	5,492	102,068	107,899
Restricted shares	-	-	-	-	(9,649)	-	-	616	11,160	1,511
ESPP	-	-	-	-	1,463	-	-	398	7,343	8,806
Acquisition of treasury shares	-	-	-	-	-	-	-	(9,234)	(260,312)	(260,312)
Cash dividends paid – \$0.49 per share	-	-	-	-	-	-	(160,031)	-	-	(160,031)
Balances at April 30, 2006	435,891	\$ 4,359	-	\$ -	\$ 653,053	\$ 21,948	\$ 3,492,059	(107,378)	\$ (2,023,620)	\$ 2,147,799

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS — Our operating subsidiaries provide a variety of financial services to the general public, principally in the U.S. Specifically, we offer tax return preparation; origination, sale and servicing of non-prime and prime mortgages; investment services through a broker-dealer; tax preparation and related software; refund anticipation loans offered by a third-party lending institution; and accounting, tax and consulting services to business clients. Tax preparation services are also provided in Canada, Australia and the United Kingdom.

PRINCIPLES OF CONSOLIDATION — The consolidated financial statements include the accounts of the Company and our wholly-owned and majority-owned subsidiaries. All material intercompany transactions and balances have been eliminated.

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

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

MANAGEMENT ESTIMATES — The preparation of financial statements in conformity with 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.

During the fourth quarter of fiscal year 2006, we revised our estimate for the provision for bad debt related to our participation interests in RALs. The change was made as a result of incorporating an additional year of collections data into the model, updating the assumption for the collection period and reviewing the modeled slope of the collection curve. These revisions decreased our provision for bad debt \$18.0 million, increased net income \$10.7 million and increased basic and diluted earnings per share \$0.03 in the current year.

CASH AND CASH EQUIVALENTS — Cash and cash equivalents include cash on hand, cash due from banks and securities purchased under agreements to resell. For purposes of the consolidated balance sheets and consolidated statements of cash flows, all non-restricted highly liquid instruments purchased with an original maturity of three months or less are considered to be cash equivalents. Book overdrafts included in accounts payable totaled \$128.7 million and \$92.7 million at April 30, 2006 and 2005, respectively.

Our broker-dealer purchases securities under agreements to resell and accounts for them as collateralized financings. The securities are carried at the amounts at which the securities will be subsequently resold, as specified in the respective agreements. It is our policy to take possession of securities, subject to resale agreements. The securities are revalued daily and collateral added whenever necessary to bring market value of the underlying collateral to a level equal to or greater than the repurchase amount specified in the contracts.

CASH AND CASH EQUIVALENTS — RESTRICTED — Cash and cash equivalents — restricted consists primarily of securities purchased under agreements to resell and cash which has been segregated in a special reserve account for the exclusive benefit of customers pursuant to federal regulations under Rule 15c3-3 of the Securities Exchange Act of 1934. Also included are cash balances held for outstanding commitments to fund mortgage loans and funds held to pay payroll and related taxes on behalf of customers.

MARKETABLE SECURITIES — TRADING — Certain marketable debt securities held by our broker-dealer are classified as trading, carried at market value based on quoted prices and marked to market through the consolidated income statements. Certain residual interests in securitizations of mortgage loans are classified as trading based on management's intentions, carried at market value based on discounted cash flow models and marked to market through the consolidated income statements. These securities are included in prepaid expenses and other current assets on the consolidated balance sheets.

RECEIVABLES FROM CUSTOMERS, BROKERS, DEALERS AND CLEARING ORGANIZATIONS AND ACCOUNTS PAYABLE TO CUSTOMERS, BROKERS AND DEALERS — Customer receivables and payables consist primarily of amounts due on margin and cash transactions. These receivables are collateralized by customers' securities held, which are not reflected in the accompanying consolidated financial statements.

Receivables from brokers are collateralized by securities in our physical possession, or on deposit with us, or receivables from customers or other brokers. The allowance for doubtful accounts represents an amount considered by management to be adequate to cover estimated losses as of the balance sheet date.

Securities borrowed and securities loaned transactions are generally reported as collateralized financings. These

transactions require deposits of cash and/or collateral with the lender. Securities loaned consist of securities owned by customers that were purchased on margin. When loaning securities, cash collateral approximately equal to the value of the securities loaned is received. The amount of cash collateral is adjusted, as required, for market fluctuations in the value of the securities loaned. Interest rates paid on the cash collateral fluctuate as short-term interest rates change.

RECEIVABLES –Receivables consist primarily of Business Services’ accounts receivable. The allowance for doubtful accounts requires management’s judgment regarding current market indicators concerning general economic trends to establish an amount considered by management to be adequate to cover estimated losses as of the balance sheet date.

MORTGAGE LOANS HELD FOR SALE –Mortgage loans held for sale are either loans originated but not yet sold or loans repurchased from investors and pending resale. Loans held for sale are carried at the lower of amortized cost or fair value as determined by outstanding commitments from investors or current investor-yield requirements calculated on an aggregate basis. Loan origination and processing fees and related direct origination costs are deferred until the related loan is sold.

RESIDUAL INTERESTS IN SECURITIZATIONS –Residual interests classified as available-for-sale securities are carried at fair value based on discounted cash flow models with unrealized gains included in other comprehensive income. The residual interests are accreted over the estimated life of the securitization structure. If the carrying value exceeds fair value, the residual is written down to fair value with the realized loss, net of any unrealized gain previously recorded in other comprehensive income, included in gains on sales of mortgage assets in the consolidated income statements.

We estimate future cash flows from these residuals and value them using assumptions we believe to be consistent with those of unaffiliated third-party purchasers. We estimate the fair value of residuals by computing the present value of the excess of the weighted-average interest rate on the loans sold plus estimated collections of prepayment penalty fee income over the sum of (1) the coupon on the securitization bonds, (2) a contractual servicing fee paid to the servicer of the loans, which is usually Option One, (3) expected losses to be incurred on the portfolio of the loans sold, as projected to occur, over the lives of the loans, (4) fees payable to the trustee and insurer, if applicable, and (5) payments made to investors on NIM bonds, if applicable. The residual valuation takes into consideration the current and expected interest rate environment. Prepayment and loss assumptions used in estimating the cash flows are based on evaluation of the actual experience of the servicing portfolio, the characteristics of the applicable loan portfolio, as well as also taking into consideration the current and expected economic and interest rate environment and its expected impact. The estimated cash flows are discounted at an interest rate we believe an unaffiliated third-party purchaser would require as a rate of return on a financial instrument with a similar risk profile. We evaluate, and adjust if necessary, the fair values of residual interests quarterly by updating the actual performance and expected assumptions in the discounted cash flow models based on current information and events and by estimating, or validating with third-party experts, if necessary, what a market participant would use in determining the current fair value. To the extent that actual excess cash flows are different from estimated excess cash flows, the fair value of the residual would increase or decrease.

BENEFICIAL INTEREST IN TRUSTS – TRADING – The beneficial interest in Trusts is recorded as a result of daily non-prime loan sales to Trusts. The beneficial interest is classified as a trading security, based on management’s intentions, is carried at fair value and is marked to market through the consolidated income statements. Fair value is calculated as the present value of estimated future cash flows, limited by the ultimate expected outcome from the disposition of the loans by the Trusts.

MORTGAGE SERVICING RIGHTS – MSRs retained in the sale of mortgage loans are recorded at allocated carrying amounts based on relative fair values at the time of the sale. The MSRs are carried at the lower of cost or fair value. Fair values of MSRs are determined based on the present value of estimated future cash flows related to servicing loans. Assumptions used in estimating the value of MSRs include market discount rates and anticipated prepayment speeds including default, estimated ancillary fee income, estimated third-party servicing costs and other economic factors. The prepayment speeds are estimated using our historical experience and third-party market sources. The MSRs are amortized to earnings in proportion to, and over the period of, estimated net future servicing income. MSRs are reviewed quarterly for potential impairment. Impairment is assessed based on the fair value of each risk stratum. MSRs are stratified by the calendar year of the loan sale date, which approximates date of origination, and loan type, primarily 2- and 3-year adjustable and fixed rate.

MORTGAGE LOANS HELD FOR INVESTMENT – Mortgage loans held for investment are loans originated with the ability and intent to hold to maturity. Loans held for investment are carried at amortized cost less a valuation allowance for credit losses incurred as of the balance sheet date. A loan’s cost includes loan origination and processing fees and related direct origination costs.

PROPERTY AND EQUIPMENT – Buildings and equipment are initially recorded at cost and are depreciated over the estimated useful life of the assets using the straight-line method. Leasehold improvements are initially recorded at cost and are amortized over the lesser of the term of the respective lease or the estimated useful life, using the straight-line method. Estimated useful lives are 15 to 40 years for buildings, 3 to 5 years for computers and other equipment and up to 8 years for leasehold improvements.

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

We are capitalizing interest costs during construction of our new corporate headquarters facility for qualified expenditures based upon interest rates in place during the construction period. Capitalized interest costs will be amortized over lives which are consistent with the constructed assets.

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

INTANGIBLE ASSETS AND GOODWILL – We test goodwill and other indefinite life intangible assets for impairment annually or more frequently, whenever events occur or circumstances change which would, more likely than not, reduce the fair value of a reporting unit below its carrying value. We have defined our reporting units as our operating segments or one level below. The first step of the impairment test is to compare the estimated fair value of the reporting unit to its carrying value. If the carrying value is less than fair value, no impairment exists. If the carrying value is greater than fair value, a second step is performed to determine the fair value of goodwill and the amount of impairment loss, if any. These tests were completed and no indications of goodwill impairment were found during fiscal year 2006, 2005 or 2004.

In addition, long-lived assets, including intangible assets with finite lives, are assessed for impairment whenever events or circumstances indicate the carrying value may not be fully recoverable by comparing the carrying value to future undiscounted cash flows. To the extent there is impairment, an analysis is performed based on several criteria, including, but not limited to, revenue trends, discounted operating cash flows and other operating factors to determine the impairment amount. No material impairment adjustments to other intangible assets or other long-lived assets were made during the three-year period ended April 30, 2006. The weighted-average life of intangible assets with finite lives is nine years.

COMMERCIAL PAPER – Short-term borrowings are used to finance temporary liquidity needs and various financial activities. There was no commercial paper outstanding at April 30, 2006 or 2005.

LITIGATION – Our policy is to routinely assess the likelihood of any adverse judgments or outcomes related to legal matters, as well as ranges of probable losses. A determination of the amount of the reserves required, if any, for these contingencies is made after thoughtful analysis of each known issue and an analysis of historical experience in accordance with Statement of Financial Accounting Standards No. 5, “Accounting for Contingencies,” and related pronouncements. We record reserves related to certain legal matters for which it is probable that a loss has been incurred and the range of such loss can be estimated. With respect to other matters, management has concluded that a loss is only reasonably possible or remote and, therefore, no liability is recorded. Management discloses the facts regarding matters assessed as reasonably possible and potential exposure, if determinable. Costs incurred with defending claims are expensed as incurred. Any receivable for insurance recoveries is recorded separately from the corresponding litigation reserve, and only if recovery is determined to be probable.

INCOME TAXES – We account for income taxes under the asset and liability method, which requires us to record deferred income tax assets and liabilities for future tax consequences attributable to differences between the financial statement carrying value of existing assets and liabilities and their respective tax bases. Deferred taxes are determined separately for each tax-paying component, within each tax jurisdiction, based on provisions of enacted tax law. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Our deferred tax assets include state and foreign tax loss carryforwards and are reduced by a valuation allowance if, based on available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Our current deferred tax assets are included in prepaid expenses and other current assets on the consolidated balance sheets. Noncurrent deferred tax assets are included in other assets on our consolidated balance sheets.

We file a consolidated Federal tax return on a calendar year basis.

REVENUE RECOGNITION – Service revenues consist primarily of fees for preparation and filing of tax returns, both in offices and through our online programs, fees associated with our POM guarantee program, mortgage loan-servicing fees, fees for consulting services and brokerage commissions. Generally,

service revenues are recorded in the period in which the service is performed. Retail and online tax preparation revenues are recorded when a completed return is filed or accepted by the customer. POM revenues are deferred and recognized over the term of the guarantee based upon historic and actual payment of claims. Revenues for services rendered in connection with the Business Services segment with fees based on time and materials, are recognized as the services are performed and amounts are earned. Investment Services' production revenue is recognized on a trade-date basis.

Gains on sales of mortgage assets are recognized when control of the assets is surrendered (when loans are sold to Trusts) and are based on the difference between cash proceeds and the allocated cost of the assets sold, including any guarantees or recourse reserves. Other components of gain on sales of mortgage loans include gains or losses on derivatives, loan sale repurchase reserves and direct origination and acquisition expenses.

Interest income consists primarily of interest earned on customer margin loan balances and mortgage loans, and accretion income. Interest income on customer margin loan balances is recognized daily as earned based on current rates charged to customers for their margin balance. Accretion income represents interest earned over the life of residual interests using the effective interest method.

Product and other revenues include royalties, RAL participation revenues and sales of software products. Franchise royalties, which are based upon the contractual percentages of franchise revenues, are recorded in the period in which the franchise provides the service. RAL participation revenue is recorded when we purchase our participation interest in the RAL. Software revenues consist mainly of tax preparation software and other personal productivity software. Sales of software are recognized when the product is sold to the end user.

Revenue recognition is evaluated separately for each unit in multiple-deliverable arrangements.

ADVERTISING EXPENSE – Advertising costs are expensed the first time the advertisement is run. Total advertising costs recorded in fiscal year 2006, 2005 and 2004 totaled \$239.2 million, \$195.4 million and \$188.3 million, respectively.

FOREIGN CURRENCY TRANSLATION – Assets and liabilities of foreign subsidiaries are translated into U.S. dollars at exchange rates prevailing at the end of the year. Translation adjustments are recorded as a separate component of other comprehensive income in stockholders' equity. Revenue and expense transactions are translated at the average of exchange rates in effect during the period.

COMPREHENSIVE INCOME – Our comprehensive income is comprised of net income, foreign currency translation adjustments and the change in net unrealized gains or losses on available-for-sale marketable securities. Included in stockholders' equity at April 30, 2006 and 2005, the net unrealized holding gain on available-for-sale securities was \$27.4 million and \$71.6 million, respectively, and the foreign currency translation adjustment was \$(5.5) million and \$(2.8) million, respectively. The net unrealized holding gain on available-for-sale securities relates primarily to available-for-sale residual interests in securitizations.

STOCK-BASED COMPENSATION PLANS – Effective May 1, 2003, we adopted the fair value recognition provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS 123), under the prospective transition method as described in Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure." We recognize stock-based compensation expense for the issuance of stock options, restricted shares and options granted pursuant to our employee stock purchase plan (ESPP) on a straight-line basis over the vesting period. Had compensation cost for all stock-based compensation plan awards been determined in accordance with the fair value accounting method prescribed under SFAS 123, our net income and earnings per share would have been as follows:

	(in 000s, except per share amounts)		
Year Ended April 30,	2006	2005	2004
Net income	\$ 490,408	\$ 623,910	\$ 694,093
Add: Stock-based compensation expense included in reported net income, net of taxes	37,254	28,819	18,029
Deduct: Total stock-based compensation expense determined under fair value method for all awards, net of taxes	(47,428)	(39,544)	(30,662)
Pro forma net income	\$ 480,234	\$ 613,185	\$ 681,460
Basic earnings per share:			
As presented	\$ 1.49	\$ 1.88	\$ 1.96
Pro forma	1.46	1.85	1.92
Diluted earnings per share:			
As presented	\$ 1.47	\$ 1.85	\$ 1.92
Pro forma	1.44	1.82	1.89

DERIVATIVE ACTIVITIES – We use forward loan sale commitments, interest rate swaps and other financial instruments to manage our interest rate risk related to commitments to fund mortgage loans and mortgage loans underlying our beneficial interest in Trusts. We do not enter into derivative transactions for speculative or trading purposes.

We record derivative instruments as assets or liabilities, measured at fair value. None of our derivative instruments qualify for hedge accounting treatment as of April 30, 2006 or 2005. Gains or losses on derivative instruments are presented in our consolidated statements of income and statements of cash flows in a manner consistent with the earnings effect of the hedged item.

DISCLOSURE REGARDING CERTAIN FINANCIAL INSTRUMENTS – The carrying values reported in the balance sheet for cash equivalents, receivables, accounts payable, accrued liabilities and the current portion of long-term debt approximate fair market value due to the relative short-term nature of the respective instruments. Residual interests and beneficial interests in Trusts are recorded at estimated fair value as discussed above. See note 5 for the fair value of MSRs and note 9 for fair value of long-term debt.

NEW ACCOUNTING STANDARDS – In February 2006, Statement of Financial Accounting Standards No. 155, “Accounting for Certain Hybrid Instruments – An Amendment of FASB Statements No. 133 and 140” (SFAS 155), was issued. The provisions of this standard establish a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation. The standard permits a hybrid financial instrument to be accounted for in its entirety if the holder irrevocably elects to measure the hybrid financial instrument at fair value, with changes in fair value recognized currently in earnings. The provisions of this standard are effective as of the beginning of our fiscal year 2008, although early adoption is permitted. Our residual interests typically have interests in derivative instruments embedded within the securitization trusts. If we elect to account for our residual interests on a fair value basis, changes in fair value will impact earnings in the period in which the change occurs. We are currently evaluating what effect the adoption of SFAS 155 will have on our consolidated financial statements.

In March 2006, Statement of Financial Accounting Standards No. 156, “Accounting for Servicing of Financial Assets – An Amendment of FASB Statement No. 140,” (SFAS 156), was issued. The provisions of this standard require mortgage servicing rights to be initially valued at fair value. SFAS 156 also allows servicers to choose to measure their servicing rights at fair value or to continue using the “amortization method” under SFAS 140. The provisions of this standard are effective as of the beginning of our fiscal year 2008, although early adoption is permitted. We are currently evaluating what effect the adoption of SFAS 156 will have on our consolidated financial statements.

In December 2004, Statement of Financial Accounting Standards No. 123 (revised 2004), “Share-Based Payment,” (SFAS 123R) was issued. SFAS 123R requires all entities to recognize the cost of employee services received in exchange for awards of equity instruments based on the grant-date fair value of those awards. Compensation expense must be recognized for the unvested portions of all awards outstanding as of the date of adoption. The provisions of this standard were delayed by the SEC and will be effective as of the beginning of our fiscal year 2007. The adoption of SFAS 123R will not have a material impact on our consolidated financial statements.

In August 2003, we adopted Emerging Issues Task Force Issue No. 00-21, “Revenue Arrangements with Multiple Deliverables” (EITF 00-21). EITF 00-21 requires consideration received in connection with arrangements involving multiple revenue generating activities be measured and allocated to each separate unit of accounting. Revenue recognition is determined separately for each unit of accounting within the arrangement. EITF 00-21 impacts revenue recognition related to tax preparation in our premium tax offices where POM guarantees are included in the price of a completed tax return. Prior to the adoption of EITF 00-21, revenues related to POM guarantees at premium offices were recorded in the same period as tax preparation revenues. Beginning May 1, 2003, revenues related to POM guarantees are now initially deferred and recognized over the guarantee period in proportion to POM claims paid. As a result of the adoption of EITF 00-21, we recorded a cumulative effect of a change in accounting principle of \$6.4 million, net of a tax benefit of \$4.0 million, as of May 1, 2003. Revenues recognized during fiscal year 2004, which were initially recognized in prior periods and recorded as part of the cumulative effect of a change in accounting principle, totaled \$36.3 million.

In August 2005, the Financial Accounting Standards Board (FASB) issued an exposure draft which amends Statement of Financial Accounting Standards No. 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities.” This exposure draft seeks to clarify the derecognition requirements for financial assets and the initial measurement of interests related to transferred financial assets that are held by a transferor. Our current off-balance sheet warehouse facilities (the Trusts) in our Mortgage Services segment would be required to be consolidated in our financial statements based on the provisions of the exposure draft. We will continue to monitor the status of the exposure draft and consider what changes, if any, could be made to the structure of the Trusts to continue to derecognize mortgage loans transferred to the Trusts. At April 30, 2006, the Trusts held loans

and debt totaling \$7.8 billion, which we would be required to consolidate into our financial statements under the provisions of this exposure draft. The final standard for this exposure draft is scheduled to be issued in the first quarter of calendar year 2007.

The estimated impact of these new accounting standards reflects current views. There may be material differences between these estimates and the actual impact of these standards.

NOTE 2: BUSINESS COMBINATIONS AND DISPOSALS

Acquisitions during fiscal years 2006, 2005 and 2004 are as follows. Results for each acquisition are included since the date of acquisition.

(in 000s)			
	Asset Acquired	Weighted Average Life	Asset Value at Acquisition
FISCAL YEAR 2006 –			
American Express Tax and Business Services, Inc.	Property and equipment		\$ 17,759
	Goodwill		72,123
	Customer relationships	11 years	18,800
	Noncompete agreements	6 years	3,900
	Trade name	2 years	2,600
	Other assets		128,998
	Liabilities		(53,442)
	Weighted average life	9 years	\$ 190,738
Other	Goodwill		\$ 13,616
	Customer relationships	9 years	8,397
	Noncompete agreements	9 years	2,024
	Other assets (liabilities)		(4,353)
	Weighted average life	9 years	\$ 19,684
FISCAL YEAR 2005 –			
Non-accounting firm Business Services acquisitions	Property and equipment		\$ 2,497
	Goodwill		9,666
	Customer relationships	10 years	7,730
	Noncompete agreements	15 years	100
	Weighted average life	10 years	\$ 19,993
FISCAL YEAR 2004 –			
Former major franchise territories	Property and equipment		\$ 2,697
	Goodwill		205,313
	Customer relationships	10 years	18,167
	Noncompete agreements	3 years	17,069
	Weighted average life	7 years	\$ 243,246
Accounting firms	Goodwill		\$ 3,923
	Customer relationships	10 years	1,794
	Noncompete agreements	15 years	747
	Weighted average life	11 years	\$ 6,464

During fiscal year 2006, we acquired all outstanding common stock of American Express Tax and Business Services, Inc. for an aggregate purchase price of \$190.7 million. The customer relationships will be amortized based on estimated customer retention and have a weighted average life of 11 years. The noncompete agreements will be amortized on a straight-line basis and have a weighted average life of six years. Goodwill recognized in this transaction is included in the Business Services segment and is not deductible for tax purposes. The preliminary purchase price allocations are subject to change and will be adjusted based upon resolution of several matters including, but not limited to, the following:

- Determination of the post-closing adjustment and final purchase price;
- Determination of final liabilities relating to planned exit activities; and
- Determination of the tax basis of acquired assets and liabilities, and deferred tax balances of the acquired business.

During fiscal year 2005, our Business Services segment acquired six businesses. Cash payments related to these acquisitions totaled \$19.5 million, with additional cash payments of \$0.1 million over the next five years. Goodwill recognized in these transactions is included in the Business Services segment and all but \$3.8 million is deductible for tax purposes.

During fiscal year 2004, we made payments of \$243.2 million related to the acquisition of primarily assets in the franchise territories of ten former major franchisees. The customer relationships will be amortized based on estimated customer retention over ten years. The noncompete agreements will be amortized on a straight-line basis over three years. Goodwill recognized in these transactions is included in the Tax Services segment and all but \$3.9 million is deductible for tax purposes.

During fiscal year 2004, we acquired three accounting firms. Cash payments related to these acquisitions totaled \$6.2 million, with additional cash payments of \$1.0 million over the next five years. The purchase agreements also provide for possible future contingent consideration of approximately \$3.0 million. Goodwill recognized in these transactions is deductible for tax purposes and is included in the Business Services segment.

During fiscal years 2006, 2005 and 2004, we made other acquisitions which were accounted for as purchases with cash payments totaling \$19.7 million, \$14.4 million and \$7.9 million, respectively. Their operations, which are not material, are included in the consolidated income statements since the date of acquisition. During fiscal years 2006, 2005 and 2004, we also paid \$2.1 million, \$3.4 million and \$27.3 million, respectively, for contingent payments on prior acquisitions.

NOTE 3: EARNINGS PER SHARE

Basic earnings per share is computed using the weighted-average number of common shares outstanding. The dilutive effect of potential common shares outstanding is included in diluted earnings per share. The computations of basic and diluted earnings per share before change in accounting principle are as follows:

(in 000s, except per share amounts)			
Year Ended April 30,	2006	2005	2004
Net income before change in accounting principle	\$490,408	\$623,910	\$700,452
Basic weighted average common shares	328,118	331,612	354,152
Dilutive potential shares from stock options and restricted stock	5,067	6,011	7,449
Convertible preferred stock	2	2	2
Dilutive weighted average common shares	333,187	337,625	361,603
Earnings per share:			
Basic	\$ 1.49	\$ 1.88	\$ 1.98
Diluted	1.47	1.85	1.94

Diluted earnings per share excludes the impact of common shares issuable upon the lapse of certain restrictions or the exercise of options to purchase 8.7 million, 1.2 million, and 4.8 million shares of stock for 2006, 2005 and 2004, respectively.

NOTE 4: MARKETABLE SECURITIES AVAILABLE-FOR-SALE

The amortized cost and market value of marketable securities classified as available-for-sale at April 30, 2006 and 2005 are summarized below:

(in 000s)								
	2006				2005			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses (1)	Market Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses (1)	Market Value
Municipal bonds	\$ 8,556	\$ 5	\$ (53)	\$ 8,508	\$ 9,797	\$ 172	\$ (1)	\$ 9,968
Common stock	3,998	382	(100)	4,280	4,250	308	(129)	4,429
Residual interests	114,922	44,136	-	159,058	90,525	115,411	-	205,936
	\$ 127,476	\$ 44,523	\$ (153)	\$ 171,846	\$ 104,572	\$ 115,891	\$ (130)	\$ 220,333

(1) Gross unrealized losses have been in a continuous loss position for less than 12 months.

We monitor our available-for-sale investment portfolio for impairment and consider many factors in determining whether the impairment is deemed to be other-than-temporary. These factors include, but are not limited to, the length of time the security has had a market value less than the cost basis, the severity of the loss, our intent and ability to hold the security for a period of time sufficient for a recovery in value, recent events specific to the issuer or industry, external credit ratings and recent downgrades in such ratings. Impairments of fair value of available-for-sale residual interests realized during fiscal years 2006 and 2005 totaled \$34.1 million and \$12.2 million, respectively.

Proceeds from the sales of available-for-sale securities were \$73.6 million, \$26.2 million and \$68.8 million during fiscal years 2006, 2005 and 2004, respectively. Gross realized gains on those sales during fiscal years 2006, 2005 and 2004 were \$32.1 million, \$15.8 million and \$41.8 million, respectively; gross realized losses were \$0.2 million, \$0.3 million and \$0.1 million, respectively.

Contractual maturities of available-for-sale debt securities at April 30, 2006 occur at varying dates over the next four to nine years. Because expected maturities differ from contractual maturities due to the issuers' rights to prepay certain obligations or the seller's rights to call certain obligations, the first call date, put date or auction date for municipal bonds and notes is considered the contractual maturity date.

NOTE 5: MORTGAGE BANKING ACTIVITIES

We originate mortgage loans and sell most non-prime loans the same day the loans are funded to Trusts. These Trusts meet the criteria of QSPEs and are therefore not consolidated. The sale is recorded in accordance with Statement of Financial Accounting Standards No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" (SFAS 140). The Trusts purchase the loans from us using nine warehouse facilities we arrange. As a result of the loan sales to the Trusts, we remove the mortgage loans from our balance sheet and record the gain on the sale, cash, MSRs, recourse reserves and a beneficial interest in Trusts, which represents our residual interest in the ultimate expected outcome from the disposition of the loans by the Trusts. The beneficial interest in Trusts was \$188.0 million and \$215.4 million at April 30, 2006 and 2005, respectively.

The Trusts, in response to the exercise of a put option by the third-party beneficial interest holders, either sell the loans directly to third-party investors or back to us to pool the loans for securitization. The decision to complete a loan sale or a securitization is dependent on market conditions. If the Trusts sell the mortgage loans, we receive cash for our beneficial interest in Trusts. In a securitization transaction, the Trusts transfer the loans to one of our consolidated subsidiaries, and we transfer our beneficial interest in Trusts and the loans to a securitization trust. The securitization trust meets the definition of a QSPE and is therefore not consolidated. The securitization trust issues bonds, which are supported by the cash flows from the pooled loans, to third-party investors. We retain an interest in the loans in the form of a trading residual interest and usually assume the first risk of loss for credit losses in the loan pool. As the cash flows of the underlying loans and market conditions change, the value of these residual interests may also change, resulting in either additional gains or impairment of the value of the residual interests. These residual interests are classified as trading securities. We held no trading residual interests as of April 30, 2006 and 2005, as all trading residuals had been securitized.

Activity related to trading residual interests in securitizations consists of the following:

(in 000s)		
April 30,	2006	2005
Balance, beginning of year	\$ -	\$ -
Additions (resulting from securitization of mortgage loans)	353,882	110,305
Cash received	(12,858)	-
Accretion	5,950	-
Change of fair value	9,837	5,352
Residuals securitized in NIM transactions	(356,811)	(115,657)
Balance, end of year	\$ -	\$ -

To accelerate the cash flows from our trading residual interests, we securitize the majority of these residual interests in NIM transactions. In a NIM transaction, the trading residual interests are transferred to another QSPE (NIM trust), which then issues bonds to third-party investors. The proceeds from the bonds are returned to us as payment for the residual interests. The bonds are secured by the pooled residual interests and are obligations of the NIM trust. We retain a subordinated interest in the NIM trust, and receive cash flows on our residual interest generally after the bonds issued to the third-party investors are paid in full. Residual interests retained from NIM securitizations may also be bundled and sold in a subsequent securitization. The new residual interests are classified as available-for-sale securities. See note 4.

Activity related to available-for-sale residual interests in securitizations consists of the following:

	(in 000s)	
April 30,	2006	2005
Balance, beginning of year	\$ 205,936	\$ 210,973
Additions (resulting from NIM transactions)	61,651	16,914
Cash received	(80,539)	(136,045)
Cash proceeds from sales and securitizations of residual interests	(62,396)	(16,485)
Accretion	108,396	137,610
Impairments of fair value	(34,107)	(12,235)
Other	(1,583)	-
Change in unrealized holding gains arising during the period	(38,300)	5,204
Balance, end of year	\$ 159,058	\$ 205,936

Prime mortgage loans are sold in loan sales, servicing released, to third-party buyers.

We sold \$40.3 billion and \$31.0 billion of mortgage loans in loan sales to the Trusts and other buyers during the years ended April 30, 2006 and 2005, respectively. Gains totaling \$575.4 million and \$772.1 million were recorded on these sales, respectively.

Trading residual interests initially valued at \$356.8 million and \$115.7 million were securitized in NIM transactions during the years ended April 30, 2006 and 2005, respectively. Net cash proceeds of \$295.2 million and \$98.7 million were received from the NIM transactions for the years ended April 30, 2006 and 2005, respectively. Total net additions to available-for-sale residual interests for the years ended April 30, 2006 and 2005 were \$61.7 million and \$16.9 million, respectively.

Cash flows from available-for-sale residual interests of \$80.5 million and \$136.0 million were received from the securitization trusts for the years ended April 30, 2006 and 2005, respectively. An additional \$62.4 million and \$16.5 million was received during fiscal years 2006 and 2005, respectively, as a result of the sale of previously securitized residuals, as discussed below. Cash received on available-for-sale residual interests is included in investing activities on the consolidated statements of cash flows.

During fiscal year 2006, we completed sales of previously securitized residual interests and recorded gains of \$31.5 million. We received cash proceeds of \$62.4 million from the transactions and retained a \$10.0 million available-for-sale residual interest. During fiscal year 2005, we completed sales of previously securitized residual interests and recorded gains of \$15.4 million. We received cash proceeds of \$16.5 million from the transactions and retained a \$21.5 million available-for-sale residual interest. These sales accelerate cash flows from the residual interests, effectively realizing previously recorded unrealized gains included in other comprehensive income.

Residual interests from NIM securitizations are classified as available-for-sale securities and are reported at fair value. Gross unrealized holding gains represent the increase in fair value of residual interests as a result of lower interest rates, loan losses or loan prepayments to date than most recently projected in our valuation models.

Aggregate net unrealized gains on available-for-sale residual interests, which had not yet been accreted into income, totaled \$44.1 million and \$115.4 million at April 30, 2006 and 2005, respectively. These unrealized gains are recorded net of deferred taxes in other comprehensive income, and may be recognized in income in future periods either through accretion or upon further securitization of the related residual interest.

Included in prepaid expenses and other current assets on our consolidated balance sheets as of April 30, 2006 and 2005, is \$255.2 million and \$231.0 million, respectively, in default advances, escrow advances and principal and interest advances related to the servicing of non-prime loans.

Activity related to mortgage servicing rights consists of the following:

	(in 000s)	
April 30,	2006	2005
Balance, beginning of year	\$ 166,614	\$ 113,821
Additions	250,537	137,510
Amortization	(144,359)	(84,191)
Impairments of fair value	(320)	(526)
Balance, end of year	\$ 272,472	\$ 166,614

Additions to MSRs during fiscal year 2006 increased primarily as a result of higher origination volumes, higher average loan balances and higher interest rates. In addition, during fiscal year 2006 we updated our assumptions used to value MSRs. The assumptions were updated primarily to reflect lower servicing costs, in particular interest paid to bondholders on monthly loan prepayments, and higher discount rates. The change in assumptions increased the weighted average value of MSRs recorded during fiscal year 2006 by approximately \$37.0 million (0.09% of loans originated). These changes in assumptions, coupled with increases in origination volumes, average loan size and interest rates, increased gains on sales of mortgage loans by \$113.0 million over the prior year.

Estimated amortization of MSRs for fiscal years 2007, 2008, 2009, 2010 and 2011 is \$147.5 million, \$76.1 million, \$32.4 million, \$11.8 million and \$4.7 million, respectively.

The key assumptions we used to originally estimate the cash flows and values of our available-for-sale residual interests are as follows:

	2006	2005	2004
Estimated credit losses	2.55%	2.72%	3.63%
Discount rate	25.00%	25.00%	16.25%
Variable returns to third-party beneficial interest holders	LIBOR forward curve at closing date		

The key assumptions we used to estimate the cash flows and values of our residual interests and MSRs at April 30 are as follows:

April 30,	2006	2005
Estimated credit losses – residual interests	3.07%	3.03%
Discount rate – residual interests	21.98%	21.01%
Discount rate – MSRs	18.00%	12.80%
Variable returns to third-party beneficial interest holders	LIBOR forward curve at valuation date	

We originate both adjustable and fixed rate mortgage loans. A key assumption used to estimate the cash flows and values of the residual interests is average annualized prepayment speeds. Prepayment speeds include voluntary prepayments, involuntary prepayments and scheduled principal payments. Prepayment rate assumptions are as follows:

	Prior to Penalty Expiration	Months Outstanding Without Prepayment Penalty Zero - 3	Remaining Life
Adjustable rate mortgage loans:			
With prepayment penalties	31%	72%	39%
Without prepayment penalties	35%	52%	35%
Fixed rate mortgage loans:			
With prepayment penalties	30%	48%	38%

For fixed rate mortgages without prepayment penalties, we use an average prepayment rate of 32% over the life of the loans. Prepayment rate is projected based on actual paydown including voluntary, involuntary and scheduled principal payments.

Expected static pool credit losses are as follows:

	Mortgage Loans Securitized in					
	2006	2005	2004	2003	2002	Prior
As of:						
April 30, 2006	3.05%	2.48%	2.18%	2.13%	2.69%	4.75%
April 30, 2005	-	2.83%	2.30%	2.08%	2.53%	4.52%
April 30, 2004	-	-	3.92%	4.35%	3.58%	4.46%

Static pool credit losses are calculated by summing the actual and projected future credit losses and dividing them by the original balance of each pool of assets.

At April 30, 2006, the sensitivities of the current fair value of residual interests and MSRs to 10% and 20% adverse changes in the above key assumptions are presented in the following table. These sensitivities are hypothetical and should be used with caution. As the figures indicate, changes in fair value based on a 10% variation in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also in this table, the effect of a variation of a particular assumption on the fair value of the retained interest is calculated without changing any other assumptions; in reality, changes in one factor may result in changes in another, which might magnify or counteract the sensitivities.

				(in 000s)
Residential Mortgage Loans				
	Available-for-sale Residuals	Beneficial interest in Trusts	MSRs	
Carrying amount/fair value of residuals	\$ 159,058	\$ 188,014	\$ 272,472	
Weighted average life (in years)	1.9	1.9	1.3	
\$ impact on fair value:				
Prepayments (including defaults):				
Adverse 10%	\$ 4,330	\$ (11,656)	\$ (39,163)	
Adverse 20%	13,924	(17,892)	(65,779)	
Credit losses:				

Adverse 10%	\$	(46,560)	\$	(6,399)	Not applicable
Adverse 20%		(75,445)		(12,796)	Not applicable
Discount rate:					
Adverse 10%	\$	(5,657)	\$	(5,972)	\$ (4,368)
Adverse 20%		(10,948)		(11,687)	(8,607)
Variable interest rates:					
Adverse 10%	\$	(4,143)	\$	(53,757)	Not applicable
Adverse 20%		(8,590)		(107,183)	Not applicable

Increases in prepayment rates related to available-for-sale residuals can generate a positive impact to fair value when reductions in estimated credit losses and prepayment penalties exceed the adverse impact to accretion from accelerating the life of the available-for-sale residual interest.

Mortgage loans which have been securitized at April 30, 2006 and 2005, past due sixty days or more and the related net credit losses are presented below:

	Total Principal Amount of Loans Outstanding		Principal Amount of Loans 60 Days or More Past Due		Credit Losses (net of recoveries)	
	April 30,		April 30,		Year Ended April 30,	
	2006	2005	2006	2005	2006	2005
Securitized mortgage loans	\$ 10,046,032	\$ 10,300,805	\$ 1,012,414	\$ 1,128,376	\$ 115,976	\$ 132,015
Mortgage loans in warehouse						
Trusts	7,845,834	6,742,387	-	-	-	-
Total loans	\$ 17,891,866	\$ 17,043,192	\$ 1,012,414	\$ 1,128,376	\$ 115,976	\$ 132,015

NOTE 6: GOODWILL AND INTANGIBLE ASSETS

Changes in the carrying amount of goodwill by segment for the year ended April 30, 2006, are as follows:

	2005	Additions	Other	2006
Tax Services	\$ 360,781	\$ 15,338	\$ 396	\$ 376,515
Mortgage Services	152,467	-	-	152,467
Business Services	328,745	70,401	(1,630)	397,516
Investment Services	173,954	-	-	173,954
	\$ 1,015,947	\$ 85,739	\$ (1,234)	\$ 1,100,452

Goodwill and other indefinite life intangible assets were tested for impairment in the fourth quarter of fiscal year 2006. An independent valuation firm was engaged to assist in the test for selected reporting units. No impairment existed at any of our reporting units during fiscal year 2006, 2005 or 2004.

The goodwill and intangible assets added in the Business Services segment relate primarily to the acquisition of American Express Tax and Business Services, Inc., as discussed in note 2.

The components of intangible assets are as follows:

April 30,	2006			2005		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Tax Services:						
Customer relationships	\$ 27,257	\$ (10,842)	\$ 16,415	\$ 23,717	\$ (7,207)	\$ 16,510
Noncompete agreements	18,879	(17,686)	1,193	17,677	(11,608)	6,069
Business Services:						
Customer relationships	153,844	(81,178)	72,666	130,585	(68,433)	62,152
Noncompete agreements	32,534	(14,300)	18,234	27,796	(11,274)	16,522
Trade name - amortizing	4,050	(1,823)	2,227	1,450	(995)	455
Trade name - non-amortizing	55,637	(4,868)	50,769	55,637	(4,868)	50,769
Investment Services:						
Customer relationships	293,000	(235,010)	57,990	293,000	(198,385)	94,615
	\$ 585,201	\$ (365,707)	\$ 219,494	\$ 549,862	\$ (302,770)	\$ 247,092

Amortization of intangible assets for the years ended April 30, 2006, 2005 and 2004 was \$64.0 million, \$61.4 million and \$61.5 million, respectively. Estimated amortization of intangible assets for fiscal years 2007, 2008, 2009, 2010 and 2011 is \$54.5 million, \$36.9 million, \$14.0 million, \$12.3 million and \$11.0 million, respectively.

NOTE 7: PROPERTY AND EQUIPMENT

The components of property and equipment are as follows:

(in 000s)		
April 30,	2006	2005
Land	\$ 17,152	\$ 23,716
Buildings	50,232	67,031
Computers and other equipment	592,610	568,986
Capitalized software	180,591	153,794
Leasehold improvements	189,283	175,048
Construction in process	118,709	-
	1,148,577	988,575
Less: Accumulated depreciation and amortization	704,792	658,425
	\$ 443,785	\$ 330,150

Depreciation and amortization expense for 2006, 2005 and 2004 was \$127.7 million, \$122.5 million and \$117.6 million, respectively. Included in depreciation and amortization expense is amortization of capitalized software of \$28.0 million, \$23.6 million and \$28.2 million, respectively.

As of April 30, 2006 and 2005, we have property and equipment under capital lease with a cost of \$22.1 million and \$16.8 million, respectively, and accumulated depreciation of \$4.9 million and \$4.2 million, respectively. During the current fiscal year we entered into an agreement to lease furniture, fixtures and equipment in conjunction with the purchase of Industrial Revenue Bonds from the City of Kansas City, Missouri as discussed further in note 16. Assets under this capital lease at April 30, 2006 totaled \$5.3 million. We also have a separate agreement to lease real estate and buildings under a noncancelable capital lease for the next 15 years with an option to purchase after two years. Total assets under this capital lease at April 30, 2006 totaled \$16.8 million.

During fiscal year 2006, we capitalized interest costs of \$4.7 million relating to the construction of our new corporate headquarters.

NOTE 8: DERIVATIVE INSTRUMENTS

A summary of our derivative instruments is as follows:

(in 000s)					
	Asset (Liability) Balance at April 30,		Gain (Loss) in the Year Ended April 30,		
	2006	2005	2006	2005	2004
Interest rate swaps	\$ 8,831	\$ (1,325)	\$ 137,192	\$ 47,192	\$ (2,703)
Put options on Eurodollar futures	3,282	-	1,071	-	-
Forward loans sale commitments	1,961	-	1,961	-	-
Interest rate caps	-	12,458	802	(106)	-
Rate-lock equivalents	(317)	801	(1,118)	2,187	(13,917)
Prime short sales	777	(805)	1,315	(2,420)	4,663
	\$ 14,534	\$ 11,129	\$ 141,223	\$ 46,853	\$ (11,957)

We use interest rate swaps, put options on Eurodollar futures and forward loan sale commitments to reduce interest rate risk associated with non-prime loans. We generally enter into interest rate swap arrangements related to existing loan applications and applications we expect to receive prior to our next anticipated change in rates charged to borrowers. Interest rate swaps represent an agreement to exchange interest rate payments, whereby we pay a fixed rate and receive a floating rate. Put options on Eurodollar futures represent the right to sell a Eurodollar futures contract at a specified price in the future. These swap and put option contracts increase in value as rates rise and decrease in value as rates fall. As a result, these contracts increase in value as rates rise and decrease in value as rates fall. The average notional amount of swap arrangements during fiscal years 2006 and 2005 was \$8.4 billion and \$2.4 billion, respectively.

We enter into forward loan sale commitments to manage market risk associated with commitments to fund mortgage loans. The notional value and the contract value of the forward commitments at April 30, 2006 were \$3.1 billion. Most of our forward commitments give us the option to under- or over-deliver by five to ten percent.

We generally enter into interest rate caps or swaps to mitigate interest rate risk associated with mortgage loans that will be securitized and trading residual interests that will be sold in a subsequent NIM transaction. The caps and swaps enhance the marketability of the securitization and NIM transactions. An interest rate cap represents a right to receive cash if interest rates rise above a contractual strike rate, its value therefore increases as interest rates rise. The interest rates used in our interest rate caps and the floating rates used in swaps are based on LIBOR.

At April 30, 2006, we had commitments to fund both non-prime and prime mortgage loans totaling \$4.0 billion for specified periods of time at "locked-in" interest rates. These derivative instruments represent commitments to fund loans (rate-lock equivalents).

We sell short FNMA, FHLMC and GNMA mortgage-backed securities to reduce our risk related to our commitments to fund fixed-rate prime loans. The position on certain or all of the fixed-

rate mortgage loans is closed approximately 10-15 days prior to standard Public Securities Association (PSA) settlement dates.

None of our derivative instruments qualify for hedge accounting treatment as of April 30, 2006 and 2005.

NOTE 9: LONG-TERM DEBT

The components of long-term debt and capital lease obligations are as follows:

	(in 000s)	
April 30,	2006	2005
Senior Notes, 8½%, due April 2007	\$499,425	\$498,825
Senior Notes, 5.125%, due October 2014	398,001	397,766
Business Services acquisition obligations, due from May 2006 to January 2008	13,439	38,022
Capital lease obligations	13,209	13,550
Other obligations	457	455
	924,531	948,618
Less: Current portion	506,992	25,545
	\$417,539	\$923,073

On October 26, 2004, we issued \$400.0 million of 5.125% Senior Notes under a shelf registration statement. The Senior Notes are due October 30, 2014, and are not redeemable by the bondholders prior to maturity. The net proceeds of this transaction were used to repay \$250.0 million in 6¾% Senior Notes that were due in November 2004. The remaining proceeds were used for working capital, capital expenditures, repayment of other debt and other general corporate purposes.

On April 13, 2000, we issued \$500.0 million of 8½% Senior Notes under a shelf registration statement. The Senior Notes are due April 15, 2007, and are not redeemable prior to maturity. The net proceeds of this transaction were used to repay a portion of the short-term borrowings that initially funded the acquisition of OLDE Financial Corporation and Financial Marketing Services, Inc. We are planning on refinancing these Senior Notes when they come due.

As of April 30, 2006, we had \$850.0 million remaining under our shelf registration for additional debt issuances. As a result of our failure to file our Form 10-Q for the fiscal quarter ended January 31, 2006 by the SEC's prescribed due date, we will be unable to issue any debt securities under our shelf registration statement until April 2007.

We have obligations related to Business Services acquisitions of \$13.4 million and \$38.0 million at April 30, 2006 and 2005, respectively. The current portion of these amounts is included in the current portion of long-term debt on the consolidated balance sheet. The long-term portions are due from May 2007 to January 2008.

We have a capitalized lease obligation of \$13.2 million at April 30, 2006 that is collateralized by land and buildings. The obligation is due in 15 years.

The aggregate payments required to retire long-term debt are \$507.0 million, \$6.8 million, \$0.5 million, \$0.6 million, \$0.6 million and \$409.1 million in 2007, 2008, 2009, 2010, 2011 and beyond, respectively.

Based upon borrowing rates currently available for indebtedness with similar terms, the fair value of long-term debt was approximately \$900.2 million at April 30, 2006.

NOTE 10: OTHER NONCURRENT ASSETS AND LIABILITIES

We have deferred compensation plans that permit directors and certain employees to defer portions of their compensation and accrue income on the deferred amounts. Their deferred compensation and our matching amounts have been accrued. Included in other noncurrent liabilities is \$153.2 million and \$115.4 million at April 30, 2006 and 2005, respectively, reflecting the liability under these plans. We may purchase whole-life insurance contracts on certain director and employee participants to recover distributions made or to be made under the plans. The cash surrender value of the policies is recorded in other noncurrent assets and totaled \$127.4 million and \$108.8 million at April 30, 2006 and 2005, respectively.

We have recorded \$183.9 million and \$213.4 million for obligations to certain government agencies at April 30, 2006 and 2005, respectively.

In connection with our acquisition of the non-attest assets of McGladrey & Pullen, LLP (M&P) in August 1999, we assumed certain retirement liabilities related to M&P's partners. We make payments in varying amounts on a monthly basis. Included in other noncurrent liabilities at April 30, 2006 and 2005 are \$14.3 million and \$15.9 million, respectively, related to this liability.

NOTE 11: STOCKHOLDERS' EQUITY

We are authorized to issue 6.0 million shares of Preferred Stock, without par value. At April 30, 2006, we had 5.6 million shares of authorized but unissued Preferred Stock. Of the unissued shares, 0.6 million shares have been designated as Participating Preferred Stock in connection with our shareholder rights plan.

On March 8, 1995, our Board of Directors authorized the issuance of a series of 0.5 million shares of nonvoting Preferred Stock designated as Convertible Preferred Stock, without par value. In April 1995, 0.4 million shares of Convertible Preferred Stock were issued in connection with an acquisition. In addition, options to purchase 51,828 shares of Convertible Preferred Stock were issued as a part of the acquisition and 37,399 shares of Convertible Preferred Stock were issued in connection with these options. Each share of Convertible Preferred Stock became convertible on April 5, 1998 into sixteen shares of Common Stock of the Company, subject to adjustment upon certain events. The holders of the Convertible Preferred Stock are not entitled to receive dividends paid in cash, property or securities and, in the event of any dissolution, liquidation or wind-up of the Company, will share ratably with the holders of Common Stock then outstanding in the assets of the Company after any distribution or payments are made to the holders of Participating Preferred Stock or the holders of any other class or series of stock of the Company with preference over the Common Stock.

We grant restricted shares to selected employees under our stock-based compensation plans. Upon the grant of restricted shares, unearned compensation is recorded as an offset to additional paid in capital and is amortized as compensation expense over the restricted period. The balance of unearned compensation related to restricted shares at April 30, 2006 and 2005 was \$42.6 million and \$23.7 million, respectively.

NOTE 12: STOCK-BASED COMPENSATION AND RETIREMENT BENEFITS

We have four stock-based compensation plans: the 2003 Long-Term Executive Compensation Plan, the 1989 Stock Option Plan for Outside Directors, the 1999 Stock Option Plan for Seasonal Employees, and the 2000 ESPP. The shareholders have approved all of our stock-based compensation plans.

The 2003 Plan replaced the 1993 Long-Term Executive Compensation Plan, effective July 1, 2003. The 1993 Plan terminated at that time, except with respect to outstanding awards thereunder. The shareholders had approved the 1993 Plan in September 1993 to replace the 1984 Long-Term Executive Compensation Plan, which terminated at that time except with respect to outstanding awards thereunder. Under the 2003 and 1989 plans, options may be granted to selected employees and outside directors to purchase our Common Stock for periods not exceeding 10 years at a price that is not less than 100% of fair market value on the date of the grant.

Options granted under the 2003 Plan are exercisable either (1) starting one year after the date of the grant, (2) starting one, two or three years after the date of the grant on a cumulative basis at the annual rate of $33\frac{1}{3}\%$ of the total number of option shares, or (3) starting three years after the date of the grant on a cumulative basis at the rate of 40%, 30%, and 30% over the following three years. In addition, certain option grants have accelerated vesting provisions based on our stock price reaching specified levels.

Options granted under the 1989 Plan for Outside Directors prior to June 30, 2004 are exercisable starting one year after the date of grant on a cumulative basis at an annual rate of $33\frac{1}{3}\%$ of the total number of option shares. Beginning with the grant on June 30, 2004, options granted under this Plan are fully vested and immediately exercisable as of the date of grant.

Under the 2003 and 1989 plans, restricted shares of our common stock may be granted to selected employees. Restricted shares granted vest either (1) starting one or three years after the grant on a cumulative basis at an annual rate of $33\frac{1}{3}\%$ of the total number of shares, or (2) at the end of three years.

The 1999 Stock Option Plan for Seasonal Employees provided for the grant of options on June 30, 2005, 2004 and 2003 at the market price on the date of the grant. The options are exercisable during September through November in each of the two years following the calendar year of the grant, subject to certain conditions.

Changes during the years ended April 30, 2006, 2005 and 2004 under the stock-based compensation plans were as follows:

(shares in 000s)						
	2006		2005		2004	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Options outstanding, beginning of year	27,103	\$ 19.02	28,964	\$ 17.93	31,544	\$ 16.07
Options granted	6,918	29.11	7,604	23.86	7,488	22.03
Options exercised	(5,479)	18.17	(6,959)	18.62	(7,854)	14.56
Options expired/cancelled	(2,494)	24.04	(2,506)	22.21	(2,214)	17.26
Options outstanding, end of year	26,048	21.40	27,103	19.02	28,964	17.93
Shares exercisable, end of year	14,693	18.51	13,268	15.89	13,336	15.39
Restricted shares granted	1,745	26.69	980	23.89	1,028	21.97
Restricted shares vested	616	22.96	352	21.66	144	11.90
Restricted shares outstanding, end of year	2,455	25.54	1,554	23.20	1,020	21.96
Shares reserved for future option or restricted stock grants, end of year	27,356		9,889		9,880	

A summary of stock options outstanding and exercisable at April 30, 2006 follows:

(shares in 000s)					
	Outstanding			Exercisable	
	Number Outstanding at April 30	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable at April 30	Weighted-Average Exercise Price
\$8.06 – 10.95	2,575	3 years	\$ 9.11	2,575	\$ 9.11
\$11.06 – 13.91	1,764	3 years	13.13	1,764	13.13
\$16.05 – 19.98	4,900	6 years	16.69	2,728	16.74
\$20.00 – 24.95	10,330	7 years	23.25	7,279	23.30
\$25.25 – 29.48	6,479	9 years	29.14	347	28.96
	26,048			14,693	

The ESPP provides the option to purchase shares of our Common Stock through payroll deductions to a majority of the employees of our subsidiaries. The purchase price of the stock is 90% of the lower of either the fair market value of our Common Stock on the first trading day within the Option Period or on the last trading day within the Option Period. The Option Periods are six-month periods beginning January 1 and July 1 each year. During fiscal years 2006 and 2005, 397,786 and 300,976 shares, respectively, were purchased under the ESPP out of a total authorized 6.0 million shares.

During fiscal years 2006, 2005 and 2004, we recorded compensation expense under the fair value method using the Black-Scholes option-pricing model on the date of the grant. The following weighted-average assumptions and fair values were used for stock option grants and ESPP options during those periods:

Year Ended April 30,	2006	2005	2004
Stock option grants - management:			
Risk-free interest rate	3.68%	3.86%	2.64%
Expected life	5 years	5 years	5 years
Expected volatility	27.28%	32.07%	31.13%
Dividend yield	1.72%	1.84%	1.63%
Weighted average fair value	\$ 6.23	\$ 5.87	\$ 5.01
Stock option grants - seasonal:			
Risk-free interest rate	3.61%	2.60%	1.21%
Expected life	2 years	2 years	2 years
Expected volatility	23.28%	27.65%	31.97%
Dividend yield	1.71%	1.85%	1.66%
Weighted average fair value	\$ 3.70	\$ 3.29	\$ 3.03
ESPP options:			
Risk-free interest rate	3.96%	2.17%	0.97%
Expected life	6 months	6 months	6 months

Expected volatility	25.06%	21.18%	38.14%
Dividend yield	1.91%	1.82%	1.55%
Weighted average fair value	\$ 4.55	\$ 3.84	\$ 4.98

We have 401(k) defined contribution plans covering all full-time employees following the completion of an eligibility period. Our contributions to these plans are discretionary and totaled \$37.3 million, \$33.4 million and \$28.9 million for fiscal years 2006, 2005 and 2004, respectively.

NOTE 13: SHAREHOLDER RIGHTS PLAN

On July 25, 1998, the rights under a shareholder rights plan, adopted by our Board of Directors on March 25, 1998, became effective. The 1998 plan was adopted to deter coercive or unfair takeover tactics and to prevent a potential acquirer from gaining control of the Company without offering a fair price to all of our stockholders. Under the 1998 plan, a dividend of one right (a "Right") per share was declared and paid on each share of our Common Stock outstanding on July 25, 1998. Rights automatically attach to shares issued after such date.

Under the 1998 plan, a Right becomes exercisable when a person or group of persons acquires beneficial ownership of 15% or more of the outstanding shares of our Common Stock without the prior written approval of our Board of Directors (an "Unapproved Stock Acquisition"), and at the close of business on the tenth business day following the commencement of, or the public announcement of an intent to commence, a tender offer that would result in an Unapproved Stock Acquisition. We may, prior to any Unapproved Stock Acquisition, amend the plan to lower such 15% threshold to not less than the greater of (1) any percentage greater than the largest percentage of beneficial ownership by any person or group of persons then known by the Company, and (2) 10% (in which case the acquisition of such lower percentage of beneficial ownership then constitutes an Unapproved Stock Acquisition and the Rights become exercisable). When exercisable, the registered holder of each Right may purchase from the Company one four-hundredth of a share of a class of our Participating Preferred Stock, without par value, at a price of \$53.75, subject to adjustment. The registered holder of each Right then also has the right (the "Subscription Right") to purchase for the exercise price of the Right, in lieu of shares of Participating Preferred Stock, a number of shares of our Common Stock having a market value equal to twice the exercise price of the Right. Following an Unapproved Stock Acquisition, if we are involved in a merger, or 50% or more of our assets or earning power are sold, the registered holder of each Right has the right (the "Merger Right") to purchase for the exercise price of the Right a number of shares of the common stock of the surviving or purchasing company having a market value equal to twice the exercise price of the Right.

After an Unapproved Stock Acquisition, but before any person or group of persons acquires 50% or more of the outstanding shares of our Common Stock, the Board of Directors may exchange all or part of the then outstanding and exercisable Rights for Common Stock at an exchange ratio of one share of Common Stock per Right (the "Exchange"). Upon any such Exchange, the right of any holder to exercise a Right terminates. Upon the occurrence of any of the events giving rise to the exercisability of the Subscription Right or the Merger Right or the ability of the Board of Directors to effect the Exchange, the Rights held by the acquiring person or group under the new plan will become void as they relate to the Subscription Right, the Merger Right or the Exchange.

We may redeem the Rights at a price of \$0.0003125 per Right at any time prior to the earlier of (1) an Unapproved Stock Acquisition, or (2) the expiration of the rights. The Rights under the plan will expire on March 25, 2008, unless extended by the Board of Directors. Until a Right is exercised, the holder thereof, as such, will have no rights as a stockholder of the Company, including the right to vote or to receive dividends. The issuance of the Rights alone has no dilutive effect and does not affect reported earnings per share.

NOTE 14: INCOME TAXES

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

(in 000s)			
Year Ended April 30,	2006	2005	2004
Domestic	\$808,992	\$1,013,844	\$1,150,450
Foreign	18,401	3,871	12,525
	\$827,393	\$1,017,715	\$1,162,975

Deferred income tax provisions (benefits) reflect the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. The current and deferred components of taxes on income are as follows:

(in 000s)			
Year Ended April 30,	2006	2005	2004
Current:			
Federal	\$320,244	\$379,907	\$382,865
State	53,783	53,452	77,112
Foreign	6,367	469	4,627
	380,394	433,828	464,604
Deferred:			
Federal	(36,545)	(37,681)	(1,880)
State	(6,137)	(1,433)	(197)
Foreign	(727)	(909)	(4)
	(43,409)	(40,023)	(2,081)
Total provision for income taxes before change in accounting principle	336,985	393,805	462,523
Income tax on cumulative effect of change in accounting principle	-	-	(4,031)
Income tax included in comprehensive income	(27,261)	(3,991)	(3,387)
Income tax included in stockholders' equity for compensation expense for tax purposes in excess of amounts recognized for financial reporting purposes	(9,529)	(10,918)	(24,730)
Total income taxes	\$300,195	\$378,896	\$430,375

The following table reconciles our federal statutory rate of 35% to our effective tax rate:

Year Ended April 30,	2006	2005	2004
Statutory tax rate	35.0%	35.0%	35.0%
Increases in income tax rate resulting from:			
State income taxes, net of Federal income tax benefit	3.7%	3.7%	3.6%
Other	2.0%	- %	1.2%
Effective tax rate	40.7%	38.7%	39.8%

The components of deferred taxes are as follows:

(in 000s)		
April 30,	2006	2005
Gross deferred tax assets:		
Accrued expenses	\$ 63,058	\$ 53,006
Allowance for credit losses and related reserves	46,192	35,116
Net operating losses	-	3,524
Current	109,250	91,646
Residual interest income	146,348	129,323
Deferred and stock-based compensation	91,030	61,111
Property and equipment	43,513	33,767
Deferred revenue	57,836	-
Net operating losses	16,471	20,018
Other	394	-

Noncurrent	355,592	244,219
	464,842	335,865
Valuation allowance	(25,816)	(20,354)
	439,026	315,511
Gross deferred tax liabilities:		
Prepaid expenses and revenue deferred for tax	(16,037)	(13,454)
Current	(16,037)	(13,454)
Mortgage servicing rights	(101,621)	(61,190)
Intangible assets	(87,992)	(101,945)
Noncurrent	(189,613)	(163,135)
Net deferred tax assets	\$ 233,376	\$ 138,922

The net change in the total valuation allowance for fiscal years 2006 and 2005 was \$5.5 million and \$(2.9) million, respectively. The valuation allowance for deferred tax assets as of April 30, 2006 was \$25.8 million.

We believe the net deferred tax asset at April 30, 2006 of \$233.4 million is more likely than not realizable. We have federal taxable income in excess of approximately \$1.7 billion and substantial state taxable income in the carry-back period.

As of April 30, 2006, we had net operating loss carryforwards for tax purposes in various states and foreign countries of approximately \$297.3 million. If not used, these carryforwards will expire in varying amounts during fiscal years 2007 through 2025.

We intend to indefinitely reinvest foreign earnings, therefore, a provision has not been made for income taxes that might be payable upon remittance of such earnings. Moreover, due to the availability of foreign income tax credits, management believes the amount of federal income taxes would be immaterial in the event foreign earnings were repatriated.

NOTE 15: SUPPLEMENTAL CASH FLOW INFORMATION

We made the following cash payments:

(in 000s)			
Year Ended April 30,	2006	2005	2004
Income taxes paid	\$ 270,540	\$ 437,427	\$ 331,635
Interest paid (net of amounts capitalized)	102,317	82,535	84,551

We characterized the following as non-cash investing activities:

(in 000s)			
Year Ended April 30,	2006	2005	2004
Additions to available-for-sale residual interests	\$ 61,651	\$ 16,914	\$ 9,007
Residual interest mark-to-market	35,274	95,929	167,065

NOTE 16: COMMITMENTS, CONTINGENCIES AND RISKS

COMMITMENTS AND CONTINGENCIES – At April 30, 2006, we maintained \$2.0 billion in back-up credit facilities to support the commercial paper program and for general corporate purposes. These CLOCs have a maturity date of August 2010 and an annual facility fee of eight and one-half basis points per annum. These lines are subject to various affirmative and negative covenants, including a minimum net worth covenant and limit our indebtedness.

We obtained an additional \$900.0 million line of credit for the period of January 3 to February 24, 2006 to back-up peak commercial paper issuance or use as an alternate source of funding for RAL participations. This line was subject to various covenants, substantially similar to the primary CLOCs.

We maintain a revolving credit facility in an amount not to exceed \$225.0 million (Canadian) in Canada to support a commercial paper program with varying borrowing levels throughout the year, reaching its peak during February and March for the Canadian tax season.

We offer guarantees under our POM program to tax clients whereby we will assume the cost, subject to certain limits, of additional tax assessments, up to a cumulative per client limit of \$5,000, attributable to tax return preparation error for which we are responsible. We defer all revenues and direct costs associated with these guarantees, recognizing these amounts over the term of the guarantee based upon historic and actual payment of claims. The related current asset is included in prepaid expenses and other current assets. The related liability is included in accounts payable, accrued expenses and other on the consolidated balance sheets. The related noncurrent asset and liability are included in other assets and other noncurrent liabilities, respectively, on the consolidated balance sheets. A loss on these POM guarantees would be recognized if the sum of expected costs for services exceeded unearned revenue. The changes in the deferred revenue liability for the fiscal years ended April 30, 2006 and 2005 are as follows:

(in 000s)		
April 30,	2006	2005
Balance, beginning of year	\$ 130,762	\$ 123,048
Amounts deferred for new guarantees issued	78,900	77,756
Revenue recognized on previous deferrals	(67,978)	(70,042)
Balance, end of year	\$ 141,684	\$ 130,762

We have commitments to fund mortgage loans to customers as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses. The commitments to fund loans amounted to \$4.0 billion and \$4.2 billion at April 30, 2006 and 2005, respectively. External market forces impact the probability of commitments being exercised, and therefore, total commitments outstanding do not necessarily represent future cash requirements.

In the normal course of business, we maintain recourse with standard representations and warranties customary to the mortgage banking industry. Violations of these representations and warranties may require us to repurchase loans previously sold. In accordance with these loan sale agreements, we repurchased loans with an outstanding principal balance of \$297.6 million and \$195.3 million during the fiscal years ended April 30, 2006 and 2005, respectively. A liability has been established related to the potential loss on repurchase of loans previously sold of \$33.4 million and \$41.2 million at April 30, 2006 and 2005, respectively. Repurchased loans are normally sold in subsequent sale transactions. On an ongoing basis, we monitor the adequacy of this liability, which is established upon the initial sale of the loans, and is included in accounts payable, accrued expenses and other current liabilities in the consolidated balance sheets. In determining the adequacy of the recourse liability, we consider such factors as known problem loans, underlying collateral values, historical loan loss experience, assessment of economic conditions and other appropriate data to identify the risks in the mortgage loans held for sale.

We are responsible for servicing mortgage loans for others of \$62.9 billion and subservicing loans of \$10.5 billion at April 30, 2006.

We are required, under the terms of our securitizations, to build and/or maintain overcollateralization (OC) to specified levels, using the excess cash flows received, until specified percentages of the securitized portfolio are attained. We fund the OC account from the proceeds of the sale. Future cash flows to the residual holder are used to amortize the bonds until a specific percentage of either the original or current balance is retained, which is specified in the securitization agreement. The bondholders' recourse to us for credit losses is limited to the future excess cash flows and the amount of OC held by the trust. Upon maturity of the bonds, any remaining amounts in the trust are distributed. The estimated future cash flows to be distributed to us are included as part of the residual valuation and are valued based upon anticipated distribution from the OC account. As of April 30, 2006 and 2005, \$358.2 million and \$309.5 million, respectively, was maintained in various OC accounts. These accounts are not assets of the Company and are not reflected in the accompanying consolidated financial statements, other than to the extent potential OC cash flows are included as part of residual interest valuations.

Option One provides a guarantee up to a maximum amount equal to approximately 10% of the aggregate principal balance of mortgage loans held by the Trusts before ultimate disposition of the loans by the Trusts. This guarantee would be called upon in the event adequate proceeds were not available from the sale of the mortgage loans to satisfy the current or ultimate payment obligations of the Trusts. No losses have been sustained on this commitment since its inception. The total principal amount of Trust obligations outstanding as of April 30, 2006 and 2005 was \$7.8 billion and \$6.7 billion, respectively. The fair value of mortgage loans held by the Trusts as of April 30, 2006 and 2005 was \$7.9 billion and \$6.8 billion, respectively. At April 30, 2006 and 2005, we recorded liabilities of \$1.7 million and \$0.9 million, respectively, which were included in accounts payable, accrued expenses and other current liabilities in the consolidated balance sheets.

We have various contingent purchase price obligations in connection with prior acquisitions. In many cases, contingent payments to be made in connection with these acquisitions are not subject to a stated limit. We estimate the potential payments (undiscounted) total approximately \$24.5 million as of April 30, 2006. Our estimate is based on current financial conditions. Should actual results differ materially from the assumptions, the potential payments will differ from the above estimate. Such payments, if and when paid, would typically be recorded as additional purchase price, generally goodwill.

Commitments exist to loan M&P the lower of the value of their accounts receivable, work-in-process and fixed assets or \$75.0 million, on a revolving basis through January 31, 2011, subject to certain termination clauses. This revolving facility bears interest at prime rate plus two percent on the outstanding amount and a commitment fee of one-half percent per annum on the unused portion of the commitment. The loan is fully secured by the accounts receivable, work-in-process and fixed assets of M&P.

We are required, in the event of non-delivery of customers' securities owed to us by other broker-dealers or by our customers, to purchase identical securities in the open market. Such purchases could result in losses not reflected in the accompanying consolidated financial statements.

As of April 30, 2006, we had pledged securities totaling \$53.0 million, which satisfied margin deposit requirements of \$43.2 million.

We monitor the credit standing of brokers and dealers and customers with whom we do business. In addition, we monitor the market value of collateral held and the market value of securities receivable from others, and seek to obtain additional collateral if insufficient protection against loss exists.

In December 2005, HRBFA reduced its \$125.0 million letter of credit with an unaffiliated financial institution to \$1.0 million. This letter of credit will be canceled in the first quarter of fiscal year 2007. HRBFA also has a secured letter of credit with a financial institution with a credit limit of \$50.0 million. There were no borrowings on these letters of credit during fiscal years 2006 or 2005 and no outstanding balance at April 30, 2006 or 2005.

We have contractual commitments to fund certain franchises requesting Franchise Equity Lines of Credit (FELCs). The commitment to fund FELCs as of April 30, 2006 totaled \$75.9 million, with a related receivable balance of \$45.1 million included in the consolidated balance sheets. The receivable represents the amount drawn on the FELCs as of April 30, 2006.

We are self-insured for certain risks, including certain employee health and benefit, workers' compensation, property and general liability claims, and claims related to our POM program. We issued three standby letters of credit to servicers paying claims related to our POM, errors and omissions and worker's compensation insurance policies. These letters of credit are for amounts not to exceed \$16.5 million, \$3.5 million and \$0.9 million, respectively. At April 30, 2006 there were no balances outstanding on these letters of credit.

During fiscal year 2004, we announced plans to construct a new world headquarters facility in downtown Kansas City, Missouri. We expect the remaining expenditure associated with this building to be approximately \$63.9 million, which will be paid out during fiscal year 2007.

During fiscal year 2006, we entered into a transaction with the City of Kansas City, Missouri, to provide us with sales and property tax savings on the furniture, fixtures and equipment for our new corporate headquarters facility. Under the transaction, the City purchased equipment by issuing \$5.3 million in industrial revenue bonds due in December 2015, and leased the furniture, fixtures and equipment to us for an identical term under a capital lease. The City's bonds were purchased by us. Because the City has assigned the lease to the bond trustee for our benefit as the sole bondholder, we, in effect, control enforcement of the lease against ourselves. As a result of the capital lease treatment, the furniture, fixtures and equipment will remain a component of property, plant and equipment in our consolidated balance sheet. As a result of the legal right of offset, the capital lease obligation and the corresponding bond investments have been eliminated in consolidation. The transaction provides us with property tax exemptions for the leased furniture, fixtures and equipment. Additional revenue bonds may be issued to cover the costs of certain improvements to this facility. The total amount of revenue bonds authorized for issuance is \$31.0 million.

Substantially all of the operations of our subsidiaries are conducted in leased premises. Most of the operating leases are for periods ranging from 3 years to 5 years, with renewal options and provide for fixed monthly rentals. Future minimum lease commitments at April 30, 2006 are as follows:

	(in 000s)
2007	\$269,890
2008	210,596
2009	161,388
2010	105,163
2011	51,960
2012 and beyond	57,819
	<u>\$856,816</u>

Our rent expense for fiscal years 2006, 2005 and 2004 totaled \$339.6 million, \$275.3 million and \$241.2 million, respectively.

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

We routinely enter into contracts that include embedded indemnifications that have characteristics similar to guarantees. Other guarantees and indemnifications of the Company and its subsidiaries include obligations to protect counter parties 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 term of indemnities may vary and in many cases is limited only by the applicable statute of limitations. The likelihood of any claims being asserted against us and the ultimate liability related to any such claims, if any, is difficult to predict. While we cannot provide assurance we will ultimately prevail in the event any such claims are asserted, we believe the fair value of these guarantees and indemnifications is not material as of April 30, 2006.

RESTRUCTURING CHARGE – During fiscal year 2006, we initiated a restructuring plan within our Mortgage Services segment to reduce costs in our mortgage operations. We have substantially completed the restructuring, which included eliminating approximately 1,200 positions and closing some of our branch offices. During fiscal year 2006, we recorded a \$12.6 million pretax restructuring charge, consisting of \$6.7 million in employee severance costs and \$5.9 million in contract termination costs. Of the total pretax charge, \$2.5 million of the contract termination costs are included in cost of service revenues and the remainder in cost of other revenues in our consolidated statement of income. The significant components of the restructuring charge incurred as of April 30, 2006 are summarized as follows:

	Charges to Date	Cash Payments	(in 000s) Accrual balance
Employee severance costs	\$ 6,742	\$ 5,005	\$ 1,737
Contract termination costs	5,882	61	5,821
	<u>\$ 12,624</u>	<u>\$ 5,066</u>	<u>\$ 7,558</u>

The liability related to this restructuring charge is included in accounts payable, accrued expenses and other on our consolidated balance sheet. Payments of employee severance costs were substantially completed by May 2006. The remaining contract termination obligations primarily relate to lease

obligations for vacant space resulting from branch office closings, as certain lease terms extend through October 2011.

Employee severance costs include estimates regarding the amount of severance payments made to certain terminated associates, and 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.

RISKS — Loans to borrowers who do not meet traditional underwriting criteria, or non-prime borrowers, present a higher level of risk of default than prime loans, because of previous credit problems, higher debt-to-income levels, lack of income documentation or limited credit history. Loans to non-prime borrowers also involve additional liquidity risks, as these loans generally have a more limited secondary market than prime loans. During fiscal year 2006 approximately 80.0% of our non-prime loan originations were adjustable rate mortgages, 21.1% of non-prime loan originations, including both adjustable rate mortgages and fixed rate mortgages, were interest-only mortgage loans, and 13.4% of both adjustable rate mortgages and fixed rate mortgages were loans with a 40-year amortization schedule. The actual rates of delinquencies, foreclosures and losses on loans to non-prime borrowers could be higher under adverse economic conditions than those currently experienced in the mortgage lending industry in general. While we believe the underwriting procedures and appraisal processes we employ enable us to mitigate certain risks inherent in loans made to these borrowers, no assurance can be given that such procedures or processes will afford adequate protection against such risks. Because we sell or securitize almost all of the mortgage loans we originate, any potential credit problems will be reflected in our consolidated financial statements in the fair value of the residual interests we hold in securitizations, or our recourse reserves established on loans sold to third parties.

Commitments to fund loans involve, to varying degrees, elements of credit risk and interest rate risk in excess of the amount recognized in the financial statements. Credit risk is mitigated by our evaluation of the creditworthiness of potential borrowers on a case-by-case basis.

Risks to the stability of Mortgage Services include external events impacting the asset-backed securities market, such as the level of and fluctuations in interest rates, real estate and other asset values, changes in the securitization market and competition.

NOTE 17: LITIGATION AND RELATED CONTINGENCIES

We have been named as a defendant in numerous lawsuits throughout the country regarding our RAL programs (the “RAL Cases”). The RAL Cases have involved a variety of legal theories asserted by plaintiffs. These theories include allegations that, among others, (i) disclosures in the RAL applications were inadequate, misleading and untimely; (ii) the RAL interest rates were usurious and unconscionable; (iii) we did not disclose that we would receive part of the finance charges paid by the customer for such loans; (iv) untrue, misleading or deceptive statements in marketing RALs; (v) breach of state laws on credit service organizations; (vi) breach of contract, unjust enrichment, unfair and deceptive acts or practices; (vii) violations of the federal Racketeer Influenced and Corrupt Organizations Act; (viii) violations of the federal Fair Debt Collection Practices Act and unfair competition with respect to debt collection activities; and (ix) 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. We have successfully defended against numerous RAL cases, some of which were dismissed on our motions for dismissal or summary judgment, and others were dismissed voluntarily by the plaintiffs after denial of class certification. Other cases have been settled, resulting in a combined pretax expense in fiscal year 2006 of \$70.2 million (the “2006 Settlements”). The 2006 Settlements are described below.

On December 21, 2005, we entered into a settlement agreement regarding four RAL Cases. Pursuant to the terms of this settlement agreement, we will contribute a total of up to \$62.5 million in cash for purposes of making payments to the settlement class, paying all attorneys’ fees and costs to class counsel and covering service awards to the representative plaintiffs. In addition, we paid costs for providing notice of the settlement to settlement class members. We increased existing reserves related to this matter, resulting in a pretax charge of \$50.7 million in fiscal year 2006.

On April 19, 2006, we entered into a settlement agreement, subject to final court approval, regarding one other RAL Case, pursuant to which we will contribute a total of \$19.5 million in cash for purposes of making payments to the settlement class, paying all attorneys’ fees and costs to class counsel, incentive payment awards to plaintiff and all notice and administration costs. We recorded a reserve of \$19.5 million related to this settlement in fiscal year 2006.

One RAL class action case and a state attorney general lawsuit are still pending, with the amounts claimed on a collective basis being very substantial. The ultimate cost of this litigation could be substantial. 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. Likewise, there can be no assurances regarding the impact of the RAL Cases on our financial statements.

We are also a party to claims and lawsuits pertaining to our electronic tax return filing services, our POM guarantee program, our Express IRA product and tax planning services. These claims and lawsuits include actions by individual plaintiffs, as well as cases in which plaintiffs seek to represent a class of similarly situated customers. The amounts claimed in these claims and lawsuits are substantial in some instances, and the ultimate liability with respect to such litigation and claims is difficult to predict. We intend to continue defending these cases vigorously, although there are no assurances as to their outcome.

In addition we and certain of our current and former directors and officers are party to several putative class actions alleging violations of certain securities laws, and certain of our current and former officers and directors are defendants in several putative shareholder derivative actions, which have purportedly been brought on behalf of the Company and in which the Company is named as a nominal defendant. The putative securities class actions allege, 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 our operations. The shareholder derivative cases pertain primarily to our recent financial restatement and certain of our products and business activities and generally allege breach of fiduciary duty, abuse of control, gross mismanagement, waste and unjust enrichment. The amounts claimed in these claims and lawsuits are substantial in some instances, and the ultimate liability with respect to such litigation and claims is difficult to predict. We intend to continue defending these cases vigorously, although there are no assurances as to their outcome.

In addition to the aforementioned types of cases, we are parties to claims and lawsuits that we consider to be ordinary, routine disputes incidental to our business (Other Claims and Lawsuits), including claims and lawsuits concerning the preparation of customers' income tax returns, tax planning services, the fees charged customers for various services, investment products, relationships with franchisees, contract disputes, employment matters and civil actions, arbitrations, regulatory inquiries and class actions arising out of our business as a broker-dealer and provider of investment products and as a servicer of mortgage loans. We believe we have meritorious defenses to each of the Other Claims and Lawsuits and are defending them vigorously. Although we cannot provide assurance we will ultimately prevail in each instance, we believe that amounts, if any, required to be paid in the discharge of liabilities or settlements pertaining to Other Claims and Lawsuits will not have a material adverse effect on our consolidated financial statements. Regardless of outcome, claims and litigation can adversely affect us due to defense costs, diversion of management attention and time, and publicity related to such matters.

NOTE 18: SUBSEQUENT EVENTS

In March 2006, the OTS approved the charter of the H&R Block Bank. The bank commenced operations on May 1, 2006, at which time we realigned certain segments of our business to reflect a new management reporting structure. In May 2006, H&R Block Bank purchased certain mortgage loans accumulated during the last quarter of fiscal year 2006, which were held by Option One at April 30, 2006.

NOTE 19: SEGMENT INFORMATION

The principal business activity of our operating subsidiaries is providing tax and financial services and products to the general public. Management has determined the reportable segments identified below according to types of services offered and the manner in which operational decisions are made. We operate in the following four reportable segments:

TAX SERVICES – This segment is primarily engaged in providing tax return preparation and related services and products in the U.S., Canada, Australia and the United Kingdom. Segment revenues include fees earned for tax-related services performed at company-owned tax offices, royalties from franchise offices, sales of tax preparation and other software, fees from online tax preparation, and payments related to RALs. This segment includes the Company's tax preparation software - TaxCut® from H&R Block, and other personal productivity software offered to the general public, and offers online do-it-yourself-tax preparation, online tax advice to the general public through the www.hrblock.com website. Revenues of this segment are seasonal in nature.

Our international operations contributed \$129.1 million, \$110.0 million and \$97.6 million in revenues for fiscal years 2006, 2005 and 2004, respectively, and \$19.8 million, \$11.3 million and \$11.1 million of pretax income, respectively.

MORTGAGE SERVICES – This segment is primarily engaged in the origination of non-prime mortgage loans, sales and securitizations of mortgage assets and servicing of non-prime loans in the U.S. This segment mainly offers, through a network of independent mortgage brokers, a flexible product line to borrowers who are creditworthy but do not meet traditional underwriting criteria. Prime mortgage loan products, as well as the same flexible product line available through brokers, are offered through H&R Block Mortgage Corporation retail offices and some other retail offices.

BUSINESS SERVICES – This segment offers middle-market companies accounting, tax and business consulting services, wealth management, retirement resources, payroll services, corporate finance, and financial process outsourcing. This segment offers services through offices located throughout the U.S. Revenues of this segment are seasonal in nature.

INVESTMENT SERVICES – This segment is primarily engaged in offering investment services and securities products through H&R Block Financial Advisors, Inc., a full-service securities broker-dealer, to the general public. Investment advice and services are primarily offered through H&R Block Financial Advisors branch offices.

CORPORATE – Corporate support departments provide services to our operating segments, consisting of marketing, information technology, facilities, human resources, executive, legal, finance, government relations and corporate communications. These support department costs are largely allocated to our operating segments. Our captive insurance and franchise financing subsidiaries are also included below within Corporate, as was our small business initiatives subsidiary in fiscal year 2004. The pretax loss from Corporate for fiscal year 2005 includes a non-operating gain of \$17.3 million, or \$0.03 per diluted share, resulting from legal recoveries.

IDENTIFIABLE ASSETS – Identifiable assets are those assets, including goodwill and intangible assets, associated with each reportable segment. The remaining assets are classified as corporate assets and consist primarily of cash, marketable securities and equipment.

Information concerning the Company's operations by reportable segment is as follows.

(in 000s)			
Year Ended April 30,	2006	2005	2004
REVENUES –			
Tax Services	\$2,451,806	\$2,358,293	\$2,191,177
Mortgage Services	1,247,138	1,246,018	1,323,709
Business Services	877,259	573,316	499,210
Investment Services	287,955	239,244	229,470
Corporate	8,643	3,148	4,314
	\$4,872,801	\$4,420,019	\$4,247,880
INCOME (LOSS) BEFORE TAXES –			
Tax Services	\$ 589,766	\$ 663,518	\$ 638,493
Mortgage Services	321,616	496,093	688,523
Business Services	53,378	29,871	19,312
Investment Services	(32,835)	(75,370)	(75,614)
Corporate	(104,532)	(96,397)	(107,739)
	\$ 827,393	\$ 1,017,715	\$ 1,162,975
DEPRECIATION AND AMORTIZATION –			
Tax Services	\$ 69,095	\$ 79,079	\$ 76,279
Mortgage Services	37,988	31,043	24,428
Business Services	38,037	23,591	23,104
Investment Services	46,081	48,662	54,378
Corporate	502	1,492	942
	\$ 191,703	\$ 183,867	\$ 179,131
CAPITAL EXPENDITURES –			
Tax Services	\$ 43,607	\$ 74,297	\$ 50,204
Mortgage Services	48,694	56,613	28,176
Business Services	32,270	22,582	18,003
Investment Services	11,088	9,503	10,531
Corporate	114,851	46,463	16,912
	\$ 250,510	\$ 209,458	\$ 123,826
IDENTIFIABLE ASSETS –			
Tax Services	\$ 843,717	\$ 716,981	\$ 666,548
Mortgage Services	1,903,729	1,336,920	1,108,022
Business Services	988,323	701,763	637,542
Investment Services	1,306,822	1,481,127	1,624,383
Corporate	946,544	1,301,265	1,197,332
	\$5,989,135	\$5,538,056	\$5,233,827

NOTE 20: QUARTERLY FINANCIAL DATA (UNAUDITED)

(in 000s, except per share amounts)

Fiscal Year 2006 Quarter Ended	Fiscal Year 2006	April 30, 2006	January 31, 2006	October 31, 2005	July 31, 2005
Revenues	\$ 4,872,801	\$ 2,496,018	\$ 1,156,747	\$ 605,043	\$ 614,993
Income (loss) before taxes	827,393	980,983	25,408	(133,129)	(45,869)
Income tax (benefit)	336,985	393,445	13,295	(51,880)	(17,875)
Net income (loss)	\$ 490,408	\$ 587,538	\$ 12,113	\$ (81,249)	\$ (27,994)
Basic earnings (loss) per share	\$ 1.49	\$ 1.79	\$ 0.04	\$ (0.25)	\$ (0.08)
Diluted earnings (loss) per share	\$ 1.47	\$ 1.77	\$ 0.04	\$ (0.25)	\$ (0.08)

Fiscal Year 2005 Quarter Ended	Fiscal Year 2005	April 30, 2005	January 31, 2005	October 31, 2004	July 31, 2004
Revenues	\$ 4,420,019	\$ 2,355,279	\$ 1,036,236	\$ 541,953	\$ 486,551
Income (loss) before taxes	1,017,715	1,003,055	153,278	(79,818)	(58,800)
Income tax (benefit)	393,805	388,125	59,542	(31,016)	(22,846)
Net income (loss)	\$ 623,910	\$ 614,930	\$ 93,736	\$ (48,802)	\$ (35,954)
Basic earnings (loss) per share	\$ 1.88	\$ 1.86	\$ 0.28	\$ (0.15)	\$ (0.11)
Diluted earnings (loss) per share	\$ 1.85	\$ 1.83	\$ 0.28	\$ (0.15)	\$ (0.11)

The accumulation of four quarters in fiscal years 2006 and 2005 for earnings per share may not equal the related per share amounts for the years ended April 30, 2006 and 2005 due to the repurchase of treasury shares, the timing of the exercise of stock options and release of restricted shares, and the antidilutive effect of stock options and unvested restricted shares in the first two quarters.

	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fiscal Year
FISCAL YEAR 2006 –					
Dividends per share	\$ 0.13	\$ 0.13	\$ 0.13	\$ 0.11	\$ 0.49
Stock price range:					
High	\$ 25.67	\$ 26.96	\$ 29.02	\$ 30.00	\$ 30.00
Low	19.80	23.06	23.01	24.47	19.80
FISCAL YEAR 2005 –					
Dividends per share	\$ 0.11	\$ 0.11	\$ 0.11	\$ 0.10	\$ 0.43
Stock price range:					
High	\$ 27.93	\$ 25.25	\$ 25.75	\$ 25.00	\$ 27.93
Low	23.43	22.99	22.57	22.08	22.08

NOTE 21: CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

Block Financial Corporation (BFC) is an indirect, wholly-owned subsidiary of the Company. BFC is the Issuer and H&R Block, Inc. is the Guarantor of the \$500.0 million 8½% Senior Notes issued on April 13, 2000 and the \$400.0 million 5.125% Senior Notes issued on October 26, 2004. Our guarantee is full and unconditional. The following condensed consolidating financial statements present separate information for BFC, the Company and for our other subsidiaries, and should be read in conjunction with our consolidated financial statements.

These condensed consolidating financial statements have been prepared using the equity method of accounting. Income of subsidiaries is, therefore, reflected in our investment in subsidiaries account. The elimination entries eliminate investments in subsidiaries, related stockholder's equity and other intercompany balances and transactions.

CONDENSED CONSOLIDATING INCOME STATEMENTS

(in 000s)

Year Ended April 30, 2006	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Eliminations	Consolidated H&R Block
Revenues	\$ -	\$ 2,018,045	\$ 2,871,364	\$ (16,608)	\$ 4,872,801
Expenses:					
Cost of service revenues	-	500,545	1,883,374	(620)	2,383,299
Cost of other revenues	-	486,971	36,021	-	522,992
Selling, general and administrative	-	481,544	646,535	(15,494)	1,112,585
	-	1,469,060	2,565,930	(16,114)	4,018,876
Operating income	-	548,985	305,434	(494)	853,925
Interest expense	-	47,242	1,817	-	49,059
Other income, net	827,393	-	22,527	(827,393)	22,527
Income before taxes	827,393	501,743	326,144	(827,887)	827,393
Income taxes	336,985	198,454	138,744	(337,198)	336,985
Net income	\$ 490,408	\$ 303,289	\$ 187,400	\$ (490,689)	\$ 490,408

Year Ended April 30, 2005	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Eliminations	Consolidated H&R Block
Revenues	\$ -	\$ 1,871,703	\$ 2,565,496	\$ (17,180)	\$ 4,420,019
Expenses:					
Cost of service revenues	-	404,053	1,595,199	(184)	1,999,068
Cost of other revenues	-	417,508	30,513	-	448,021
Selling, general and administrative	-	447,688	487,419	(14,430)	920,677
	-	1,269,249	2,113,131	(14,614)	3,367,766
Operating income	-	602,454	452,365	(2,566)	1,052,253
Interest expense	-	59,247	3,293	(173)	62,367
Other income, net	1,017,715	17,277	10,552	(1,017,715)	27,829
Income before taxes	1,017,715	560,484	459,624	(1,020,108)	1,017,715
Income taxes	393,805	218,869	175,862	(394,731)	393,805
Net income	\$ 623,910	\$ 341,615	\$ 283,762	\$ (625,377)	\$ 623,910

Year Ended April 30, 2004	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Eliminations	Consolidated H&R Block
Revenues	\$ -	\$ 1,844,772	\$ 2,419,446	\$ (16,338)	\$ 4,247,880
Expenses:					
Cost of service revenues	-	372,582	1,422,567	(283)	1,794,866
Cost of other revenues	-	357,350	25,168	-	382,518
Selling, general and administrative	-	368,725	493,114	(15,682)	846,157
	-	1,098,657	1,940,849	(15,965)	3,023,541
Operating income	-	746,115	478,597	(373)	1,224,339
Interest expense	-	66,931	4,287	-	71,218
Other income, net	1,162,975	-	9,854	(1,162,975)	9,854
Income before taxes	1,162,975	679,184	484,164	(1,163,348)	1,162,975
Income taxes	462,523	263,456	199,216	(462,672)	462,523
Income before change in accounting	700,452	415,728	284,948	(700,676)	700,452
Cumulative effect of change in accounting	(6,359)	-	(6,359)	6,359	(6,359)
Net income	\$ 694,093	\$ 415,728	\$ 278,589	\$ (694,317)	\$ 694,093

CONDENSED CONSOLIDATING BALANCE SHEETS

(in 000s)

April 30, 2006	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Eliminations	Consolidated H&R Block
Cash & cash equivalents	\$ -	\$ 151,561	\$ 542,797	\$ -	\$ 694,358
Cash & cash equivalents - restricted	-	377,445	16,624	-	394,069
Receivables from customers, brokers and dealers, net	-	496,577	-	-	496,577
Receivables, net	161	128,123	374,904	-	503,188
Intangible assets and goodwill, net	-	387,194	932,752	-	1,319,946
Investments in subsidiaries	5,237,611	215	456	(5,237,611)	671
Other assets	-	2,116,900	463,966	(540)	2,580,326
Total assets	\$ 5,237,772	\$ 3,658,015	\$ 2,331,499	\$ (5,238,151)	\$ 5,989,135
Accounts payable to customers, brokers and dealers	\$ -	\$ 781,303	\$ -	\$ -	\$ 781,303
Long-term debt	-	398,001	19,538	-	417,539
Other liabilities	2	1,042,611	1,599,881	-	2,642,494
Net intercompany advances	3,089,971	(355,358)	(2,734,567)	(46)	-
Stockholders' equity	2,147,799	1,791,458	3,446,647	(5,238,105)	2,147,799
Total liabilities and stockholders' equity	\$ 5,237,772	\$ 3,658,015	\$ 2,331,499	\$ (5,238,151)	\$ 5,989,135

April 30, 2005	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Eliminations	Consolidated H&R Block
Cash & cash equivalents	\$ -	\$ 162,983	\$ 937,230	\$ -	\$ 1,100,213
Cash & cash equivalents - restricted	-	488,761	28,148	-	516,909
Receivables from customers, brokers and dealers, net	-	590,226	-	-	590,226
Receivables, net	101	122,908	218,697	-	341,706
Intangible assets and goodwill, net	-	421,036	842,003	-	1,263,039
Investments in subsidiaries	4,851,680	210	449	(4,851,680)	659
Other assets	-	1,484,164	241,532	(392)	1,725,304
Total assets	\$ 4,851,781	\$ 3,270,288	\$ 2,268,059	\$ (4,852,072)	\$ 5,538,056
Accounts payable to customers, brokers and dealers	\$ -	\$ 950,684	\$ -	\$ -	\$ 950,684
Long-term debt	-	896,591	26,482	-	923,073
Other liabilities	2	532,562	1,182,459	8	1,715,031
Net intercompany advances	2,902,511	(641,611)	(2,262,818)	1,918	-
Stockholders' equity	1,949,268	1,532,062	3,321,936	(4,853,998)	1,949,268
Total liabilities and stockholders' equity	\$ 4,851,781	\$ 3,270,288	\$ 2,268,059	\$ (4,852,072)	\$ 5,538,056

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

(in 000s)

Year Ended April 30, 2006	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Eliminations	Consolidated H&R Block
Net cash provided by (used in) operating activities:	\$ 66,667	\$ (2,937)	\$ 521,956	\$ -	\$ 585,686
Cash flows from investing activities:					
Cash received on residual interests	-	80,539	-	-	80,539
Mortgage loans originated and held for investment	-	(407,538)	-	-	(407,538)
Purchases of property & equipment	-	(59,824)	(190,686)	-	(250,510)
Payments made for business acquisitions	-	(2,939)	(209,604)	-	(212,543)
Net intercompany advances	245,169	-	-	(245,169)	-
Other, net	-	80,486	21,061	-	101,547
Net cash provided by (used in) investing activities	245,169	(309,276)	(379,229)	(245,169)	(688,505)
Cash flows from financing activities:					
Repayments of short-term debt	-	(6,790,463)	(258,418)	-	(7,048,881)
Proceeds from issuance of short-term debt	-	6,790,463	258,418	-	7,048,881
Payments on acquisition debt	-	-	(26,819)	-	(26,819)
Dividends paid	(160,031)	-	-	-	(160,031)
Acquisition of treasury shares	(260,312)	-	-	-	(260,312)
Proceeds from issuance of common stock	108,507	-	-	-	108,507
Net intercompany advances	-	286,253	(531,422)	245,169	-
Other, net	-	14,538	21,081	-	35,619
Net cash provided by (used in) financing activities	(311,836)	300,791	(537,160)	245,169	(303,036)
Net decrease in cash and cash equivalents	-	(11,422)	(394,433)	-	(405,855)
Cash and cash equivalents at beginning of the year	-	162,983	937,230	-	1,100,213
Cash and cash equivalents at end of the year	\$ -	\$ 151,561	\$ 542,797	\$ -	\$ 694,358

Year Ended April 30, 2005	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Eliminations	Consolidated H&R Block
Net cash provided by operating activities:	\$ 39,134	\$ 122,311	\$ 352,348	\$ -	\$ 513,793
Cash flows from investing activities:					
Cash received on residual interests	-	136,045	-	-	136,045
Purchases of property & equipment	-	(66,255)	(143,203)	-	(209,458)
Payments made for business acquisitions	-	-	(37,621)	-	(37,621)
Net intercompany advances	497,774	-	-	(497,774)	-
Other, net	-	33,710	18,914	-	52,624
Net cash provided by (used in) investing activities	497,774	103,500	(161,910)	(497,774)	(58,410)
Cash flows from financing activities:					
Repayments of short-term debt	-	(5,941,623)	-	-	(5,941,623)
Proceeds from issuance of short-term debt	-	5,941,623	-	-	5,941,623
Repayments of long-term debt	-	(250,000)	-	-	(250,000)
Proceeds from issuance of long-term debt	-	395,221	-	-	395,221
Payments on acquisition debt	-	-	(25,664)	-	(25,664)
Dividends paid	(142,988)	-	-	-	(142,988)
Acquisition of treasury shares	(530,022)	-	-	-	(530,022)
Proceeds from issuance of common stock	136,102	-	-	-	136,102
Net intercompany advances	-	(324,424)	(173,350)	497,774	-
Other, net	-	(16,813)	6,249	-	(10,564)
Net cash provided by (used in) financing activities	(536,908)	(196,016)	(192,765)	497,774	(427,915)
Net increase (decrease) in cash and cash equivalents	-	29,795	(2,327)	-	27,468
Cash and cash equivalents at beginning of the year	-	133,188	939,557	-	1,072,745
Cash and cash equivalents at end of the year	\$ -	\$ 162,983	\$ 937,230	\$ -	\$ 1,100,213

Year Ended April 30, 2004	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Eliminations	Consolidated H&R Block
Net cash provided by operating activities:	\$ 64,782	\$ 163,464	\$ 624,217	\$ -	\$ 852,463
Cash flows from investing activities:					
Cash received on residual interests	-	193,606	-	-	193,606
Purchases of property & equipment	-	(35,482)	(88,344)	-	(123,826)
Payments made for business acquisitions	-	-	(280,865)	-	(280,865)
Net intercompany advances	473,521	-	-	(473,521)	-
Other, net	-	66,046	17,653	-	83,699
Net cash provided by (used in) investing activities	473,521	224,170	(351,556)	(473,521)	(127,386)
Cash flows from financing activities:					
Repayments of commercial paper	-	(4,618,853)	-	-	(4,618,853)
Proceeds from issuance of commercial paper	-	4,618,853	-	-	4,618,853
Payments on acquisition debt	-	-	(59,003)	-	(59,003)
Dividends paid	(138,397)	-	-	-	(138,397)
Acquisition of treasury shares	(519,862)	-	-	-	(519,862)
Proceeds from issuance of common stock	119,956	-	-	-	119,956
Net intercompany advances	-	(453,477)	(20,044)	473,521	-
Other, net	-	18,850	12,831	-	31,681
Net cash provided by (used in) financing activities	(538,303)	(434,627)	(66,216)	473,521	(565,625)
Net increase (decrease) in cash and cash equivalents	-	(46,993)	206,445	-	159,452
Cash and cash equivalents at beginning of the year	-	180,181	733,112	-	913,293
Cash and cash equivalents at end of the year	\$ -	\$ 133,188	\$ 939,557	\$ -	\$ 1,072,745

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

(a) EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES –

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

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

(b) MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING –

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). Under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in "Internal Control - Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) as of April 30, 2006.

Based on our assessment, management concluded that, as of April 30, 2006, the Company's internal control over financial reporting was effective based on the criteria set forth by COSO.

The Company's external auditors, KPMG LLP, an independent registered public accounting firm, have issued an audit report on our assessment of the Company's internal control over financial reporting. This report appears in Item 8.

(c) CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING –

During the fourth quarter of fiscal year 2006, we completed remediation efforts relating to a material weakness in our controls over accounting for income taxes that was reported as of April 30, 2005. In addition to control enhancements identified in our previously filed reports on Form 10-Q, management implemented additional improvements to controls in the state income tax rate calculation process to incorporate the use of current period pro forma federal and state taxable income calculations and the use of current and projected state apportionment factors, among other data inputs.

Other than the changes outlined above, there were no changes that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The following information appearing in our definitive proxy statement, to be filed no later than 120 days after April 30, 2006, is incorporated herein by reference:

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

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

Information about our executive officers as of May 15, 2006 is as follows:

Name, age	Current position	Business experience since May 1, 2001
Mark A. Ernst , age 47	Chairman of the Board, President and Chief Executive Officer	Chairman of the Board of Directors since September 2002; Chief Executive Officer since January 2001; President of the Company since September 1999. Mr. Ernst has been a Member of the Board of Directors since September 1999.
William L. Trubeck , age 59	Executive Vice President and Chief Financial Officer	Executive Vice President and Chief Financial Officer since October 2004; Executive Vice President - Western Group of Waste Management, Inc. from April 2003 until October 2004; Chief Administrative Officer of Waste Management, Inc. from May 2002 until April 2003; Chief Financial Officer of Waste Management, Inc., from March 2000 to April 2003.
Jeffrey E. Nachbor , age 41	Senior Vice President and Corporate Controller	Senior Vice President and Corporate Controller since October 2005; Senior Vice President and Chief Financial Officer of Sharper Image Corporation from February 2005 until October 2005; Senior Vice President, Corporate Controller of Staples, Inc., from April 2003 to February 2005; Vice President of Finance of Victoria's Secret Direct, a Division of Limited Brands, Inc., from December 2000 to April 2003.
Robert E. Dubrish , age 54	President and Chief Executive Officer, Option One Mortgage Corporation	President and Chief Executive Officer, Option One Mortgage Corporation, since March 1996.
Timothy C. Gokey , age 44	President, Retail Tax Services	President, Retail Tax Services since June 2004; McKinsey & Company from 1986 until June 2004.
Brad C. Iversen , age 56	Senior Vice President and Chief Marketing Officer	Senior Vice President and Chief Marketing Officer since September 2003; Founded Catamount Marketing in 2002; Executive Vice President and Director of Marketing at Bank One Corporation from 1997 to 2002.
Linda M. McDougall , age 53	Vice President, Communications	Vice President, Communications since July 1999.
Steve L. Nadon , age 49	President, Consumer Financial Services Group	President, Consumer Financial Services Group since March 2006; Executive Vice President and Chief Operating Officer of Option One Mortgage Corporation from January 1998 to March 2006.

Name, age	Current position	Business experience since May 1, 2001
Tammy S. Serati , age 47	Senior Vice President, Human Resources	Senior Vice President, Human Resources since December 2002; Vice President, Human Resources Corporate Staffs, for Monsanto Agricultural Company, from May 2000 through November 2002.
Becky S. Shulman , age 41	Vice President and Treasurer	Vice President and Treasurer since September 2001; Chief Investment Officer of U.S. Central Credit Union, from September 1998 until August 2001.
Nicholas J. Spaeth , age 56	Senior Vice President and Chief Legal Officer	Senior Vice President and Chief Legal Officer since February 2004; Senior Vice President, General Counsel and Secretary of Intuit, Inc. from August 2003 to February 2004; Senior Vice President, General Counsel and Secretary, GE Employers Reinsurance Corporation from September 2000 until August 2003.
Steven Tait , age 46	President, RSM McGladrey Business Services, Inc.	President, RSM McGladrey Business Services, Inc. since April 2003; Executive Vice President, Sales & Client Operations, Gartner, Inc., from June 2001 through March 2003; Senior Vice President, Sales and Operations at Gartner, Inc. from July 2000 until May 2001.
Robert A. Weinberger , age 61	Vice President, Government Relations	Vice President, Government Relations, since March 1996.
Marc West , age 46	Senior Vice President and Chief Information Officer	Senior Vice President and Chief Information Officer since September 2004; Senior Vice President and Chief Information Officer of Electronic Arts Inc. from 2000 until September 2004.
Bret G. Wilson , age 47	Vice President and Secretary	Vice President and Secretary since October 2002; Vice President, Corporate Development and Risk Management from October 2000 until October 2002.

ITEM 11. EXECUTIVE COMPENSATION

The information called for by this item is contained in our definitive proxy statement filed pursuant to Regulation 14A not later than 120 days after April 30, 2006, in the sections entitled “Director Compensation” and “Compensation of Executive Officers,” and is incorporated herein by reference.

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

The information called for by this item is contained in our definitive proxy statement filed pursuant to Regulation 14A not later than 120 days after April 30, 2006, in the section titled “Equity Compensation Plans” and in the section titled “Information Regarding Security Holders,” and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information called for by this item is contained in our definitive proxy statement filed pursuant to Regulation 14A no later than 120 days after April 30, 2006, in the section titled “Employee Agreements, Change in Control and Other Arrangements,” and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information called for by this item is contained in our definitive proxy statement filed pursuant to Regulation 14A no later than 120 days after April 30, 2006, in the section titled "Audit Fees," and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Documents filed as part of this Report:

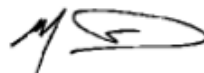
1. The following financial statements appearing in Item 8: "Consolidated Statements of Income and Comprehensive Income;" "Consolidated Balance Sheets;" "Consolidated Statements of Cash Flows;" and "Consolidated Statements of Stockholders' Equity."
2. Financial Statement Schedule II - Valuation and Qualifying Accounts with the related Reports of Independent Registered Public Accounting Firms. These will be filed with the SEC but will not be included in the printed version of the Annual Report to Shareholders.
3. Exhibits: The list of exhibits in the Exhibit Index to this Report is incorporated herein by reference. The following exhibits are required to be filed as exhibits to this Form 10-K:
 - 10.6 The H&R Block Executive Performance Plan.
 - 10.38 Agreement of Settlement dated April 19, 2006 among HSBC Finance Corporation, HSBC Taxpayer Financial Services Inc., Beneficial Franchise Company, Inc., H&R Block, Inc., H&R Block Services, Inc., H&R Block Tax Services, Inc., Block Financial Corporation, HRB Royalty, Inc., H&R Block Eastern Enterprises, Inc., and Lynne A. Carnegie.
 - 10.70 Amendment Number Seven, dated April 28, 2006, to Indenture between Option One Owner Trust 2001-1A and Wells Fargo Bank, N.A.
 - 10.77 Amendment Number Eight, dated April 28, 2006, to Indenture between Option One Owner Trust 2001-1B and Wells Fargo Bank, N.A.
 - 12 Computation of Ratio of Earnings to Fixed Charges for the five years ended April 30, 2006.
 - 21 Subsidiaries of the Company.
 - 23.1 Consent of KPMG LLP, Independent Registered Public Accounting Firm.
 - 31.1 Certification by Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
 - 31.2 Certification by Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
 - 32.1 Certification by Chief Executive Officer pursuant to 18 U.S.C. 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002.
 - 32.2 Certification by Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002.

The exhibits will be filed with the SEC but will not be included in the printed version of the Annual Report to Shareholders.

SIGNATURES

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

H&R BLOCK, INC.

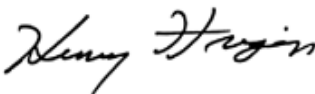


Mark A. Ernst
Chairman of the Board, President and
Chief Executive Officer
June 30, 2006

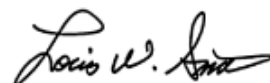
Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated on June 30, 2006.



Mark A. Ernst
Chairman of the Board, President, Chief Executive
Officer and Director (principal executive officer)



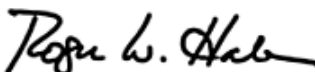
Henry F. Frigon
Director



Louis W. Smith
Director



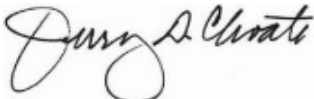
Thomas M. Bloch
Director



Roger W. Hale
Director



Rayford Wilkins, Jr.
Director



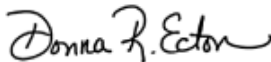
Jerry D. Choate
Director



Len J. Lauer
Director



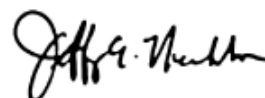
William L. Trubeck
Executive Vice President and Chief Financial
Officer (principal financial officer)



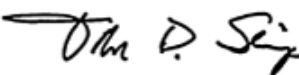
Donna R. Ecton
Director



David B. Lewis
Director



Jeffrey E. Nachbor
Senior Vice President and Corporate
Controller
(principal accounting officer)



Tom D. Seip
Director

EXHIBIT INDEX

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

- 3.1 Restated Articles of Incorporation of H&R Block, Inc., as amended, filed as Exhibit 3.2 to the Company's quarterly report on Form 10-Q for the quarter ended October 31, 2004, file number 1-6089, are incorporated herein by reference.
- 3.2 Certificate of Amendment of Articles of Incorporation effective September 30, 2004, filed as Exhibit 3.1 to the Company's quarterly report on Form 10-Q for the quarter ended October 31, 2004, file number 1-6089, is incorporated herein by reference.
- 3.3 Amended and Restated Bylaws of H&R Block, Inc., as amended and restated as of June 9, 2004, filed as Exhibit 3.3 to the Company's annual report on Form 10-K for the year ended April 30, 2004, file number 1-6089, is incorporated herein by reference.
- 4.1 Indenture dated as of October 20, 1997, among H&R Block, Inc., Block Financial Corporation and Bankers Trust Company, as Trustee, filed as Exhibit 4(a) to the Company's quarterly report on Form 10-Q for the quarter ended October 31, 1997, file number 1-6089, is incorporated herein by reference.
- 4.2 First Supplemental Indenture, dated as of April 18, 2000, among H&R Block, Inc., Block Financial Corporation, Bankers Trust Company and the Bank of New York, filed as Exhibit 4(a) to the Company's current report on Form 8-K dated April 13, 2000, file number 1-6089, is incorporated herein by reference.
- 4.3 Officer's Certificate, dated October 26, 2004, in respect of 5.125% Notes due 2014 of Block Financial Corporation, filed as Exhibit 4.1 to the Company's current report on Form 8-K dated October 21, 2004, file number 1-6089, is incorporated herein by reference.
- 4.4 Form of 8½% Senior Note due 2007 of Block Financial Corporation, filed as Exhibit 4(b) to the Company's current report on Form 8-K dated April 13, 2000, file number 1-6089, is incorporated herein by reference.
- 4.5 Form of 5.125% Note due 2014 of Block Financial Corporation, filed as Exhibit 4.2 to the Company's current report on Form 8-K dated October 21, 2004, file number 1-6089, is incorporated herein by reference.
- 4.6 Copy of Rights Agreement dated March 25, 1998, between H&R Block, Inc. and ChaseMellon Shareholder Services, L.L.C., filed on July 22, 1998 as Exhibit 1 to the Company's Registration Statement on Form 8-A, file number 1-6089, is incorporated herein by reference.
- 4.7 Form of Certificate of Designation, Preferences and Rights of Participating Preferred Stock of H&R Block, Inc., filed as Exhibit 4(e) to the Company's annual report on Form 10-K for the fiscal year ended April 30, 1995, file number 1-6089, is incorporated by reference.
- 4.8 Form of Certificate of Amendment of Certificate of Designation, Preferences and Rights of Participating Preferred Stock of H&R Block, Inc., filed as Exhibit 4(j) to the Company's annual report on Form 10-K for the fiscal year ended April 30, 1998, file number 1-6089, is incorporated by reference.
- 4.9 Form of Certificate of Designation, Preferences and Rights of Delayed Convertible Preferred Stock of H&R Block, Inc., filed as Exhibit 4(f) to the Company's annual report on Form 10-K for the fiscal year ended April 30, 1995, file number 1-6089, is incorporated by reference.
- 10.1 *The Company's 2003 Long-Term Executive Compensation Plan, as amended and restated as of September 10, 2003, filed as Exhibit 10.2 to the Company's quarterly report on Form 10-Q for the quarter ended October 31, 2003, file number 1-6089, is incorporated by reference.
- 10.2 *Form of 2003 Long-Term Executive Compensation Plan Award Agreement, filed as Exhibit 10.2 to the Company's annual report on Form 10-K for the year ended April 30, 2005, file number 1-6089, is incorporated by reference.
- 10.3 *The H&R Block Deferred Compensation Plan for Directors, as Amended and Restated effective July 1, 2002, filed as Exhibit 10.2 to the Company's annual report on Form 10-K for the fiscal year ended April 30, 2002, file number 1-6089, is incorporated by reference.
- 10.4 *The H&R Block Deferred Compensation Plan for Executives, as Amended and Restated July 1, 2002, filed as Exhibit 10.3 to the Company's annual report on Form 10-K for the fiscal year ended April 30, 2002, file number 1-6089, is incorporated by reference.
- 10.5 *Amendment No. 1 to the H&R Block Deferred Compensation Plan for Executives, as Amended and Restated, effective as of March 12, 2003, filed as Exhibit 10.5 to the company's annual report on Form 10-K for the fiscal year ended April 30, 2003, file number 1-6089, is incorporated herein by reference.

- 10.6 *The H&R Block Executive Performance Plan.
- 10.7 *Summary of Non-Employee Director Compensation and Benefits, filed as Exhibit 10.1 to the Company's current report on Form 8-K dated March 1, 2006, file number 1-6089, is incorporated herein by reference.
- 10.8 *Description of Executive Officer Cash Compensation, filed as Exhibit 10.8 to the Company's quarterly report on Form 10-Q for the quarter ended July 31, 2005, file number 1-6089, is incorporated herein by reference.
- 10.9 *The Company's 1989 Stock Option Plan for Outside Directors, as amended and restated as of September 8, 2004, filed as Exhibit 10.5 to the Company's quarterly report on Form 10-Q for the quarter ended October 31, 2004, file number 1-6089, is incorporated herein by reference.
- 10.10 *Form of 1989 Stock Option Plan for Outside Directors Stock Option Agreement, filed as Exhibit 10.9 to the Company's annual report on Form 10-K for the year ended April 30, 2005, file number 1-6089, is incorporated by reference.
- 10.11 *The H&R Block Stock Plan for Non-Employee Directors, as amended August 1, 2001, filed as Exhibit 10.3 to the Company's quarterly report on Form 10-Q for the quarter ended October 31, 2001, file number 1-6089, is incorporated herein by reference.
- 10.12 *The H&R Block, Inc. 2000 Employee Stock Purchase Plan, as amended August 1, 2001, filed as Exhibit 10.2 to the Company's quarterly report on Form 10-Q for the quarter ended October 31, 2001, file number 1-6089, is incorporated herein by reference.
- 10.13 *The H&R Block, Inc. Executive Survivor Plan (as Amended and Restated) filed as Exhibit 10.4 to the Company's quarterly report on

Form 10-Q for the quarter ended October 31, 2000, file number 1-6089, is incorporated herein by reference.

- 10.14 *First Amendment to the H&R Block, Inc. Executive Survivor Plan (as Amended and Restated), filed as Exhibit 10.9 to the Company's annual report on Form 10-K for the fiscal year ended April 30, 2002, file number 1-6089, is incorporated by reference.
- 10.15 *Second Amendment to the H&R Block, Inc. Executive Survivor Plan (as Amended and Restated), effective as of March 12, 2003, filed as Exhibit 10.12 to the company's annual report on Form 10-K for the fiscal year ended April 30, 2003, file number 1-6089, is incorporated herein by reference.
- 10.16 *Employment Agreement dated July 16, 1998, between the Company and Mark A. Ernst, filed as Exhibit 10(a) to the Company's quarterly report on Form 10-Q for the quarter ended July 31, 1998, file number 1-6089, is incorporated herein by reference.
- 10.17 *Amendment to Employment Agreement dated June 30, 2000, between HRB Management, Inc. and Mark A. Ernst, filed as Exhibit 10.1 to the Company's quarterly report on Form 10-Q for the quarter ended July 31, 2000, file number 1-6089, is incorporated herein by reference.
- 10.18 *Employment Agreement dated as of October 4, 2004 between HRB Management, Inc. and William L. Trubeck, filed as Exhibit 10.2 to the Company's current report on Form 8-K/A Amendment No. 1 dated September 9, 2004, file number 1-6089, is incorporated herein by reference.
- 10.19 Employment Agreement dated as of February 2, 2004, between HRB Management, Inc. and Nicholas J. Spaeth, filed as Exhibit 10.16 to the company's annual report on Form 10-K for the fiscal year ended April 30, 2004, file number 1-6089, is incorporated herein by reference.
- 10.20 *Employment Agreement dated September 2, 2003, between HRB Management, Inc. and Brad C. Iversen, filed as Exhibit 10.1 to the Company's quarterly report on Form 10-Q for the quarter ended January 31, 2004, file number 1-6089, is incorporated herein by reference.
- 10.21 *Employment Agreement between Option One Mortgage Corporation and Robert E. Dubrish, executed on February 9, 2002, filed as Exhibit 10.2 to the Company's quarterly report on Form 10-Q for the quarter ended January 31, 2002, file number 1-6089, is incorporated herein by reference.
- 10.22 *Employment Agreement dated December 2, 2002 between HRB Management, Inc. and Tammy S. Serati, filed as Exhibit 10.4 to the quarterly report on Form 10-Q for the quarter ended January 31, 2003, file number 1-6089, is incorporated herein by reference.
- 10.23 *Employment Agreement dated as of April 1, 2003 between HRB Business Services, Inc. and Steven Tait, filed as Exhibit 10.23 to the annual report on Form 10-K for the fiscal year ended April 30, 2003, file number 1-6089, is incorporated herein by reference.
- 10.24 *Employment Agreement dated as of September 15, 2004 between HRB Management, Inc. and Marc West, filed as Exhibit 10.1 to the quarterly report on Form 10-Q for the quarter ended October 31, 2004, file number 1-6089, is incorporated herein by reference.
- 10.25 *Employment Agreement dated as of June 28, 2004 between H&R Block Services, Inc. and Timothy C. Gokey, filed as Exhibit 10.4 to the quarterly report on Form 10-Q for the quarter ended July 31, 2004, file number 1-6089, is incorporated herein by reference.
- 10.26 *Employment Agreement dated September 27, 2005 between HRB Management, Inc. and Jeff Nachbor, filed as Exhibit 10.10 to the quarterly report on Form 10-Q for the quarter ended October 31, 2005, file number 1-6089, is incorporated herein by reference.
- 10.27 *Form of Indemnification Agreement for directors, filed as Exhibit 10.1 to the Company's current report on Form 8-K dated December 14, 2005, file number 1-6089, is incorporated herein by reference.
- 10.28 Second Amended and Restated Refund Anticipation Loan Operations Agreement dated as of June 9, 2003, between H&R Block Services, Inc., Household Tax Masters, Inc. and Beneficial Franchise Company, filed as Exhibit 10.27 to the annual report on Form 10-K for the fiscal year ended April 30, 2003, file number 1-6089, is incorporated herein by reference.
- 10.29 Fourth Amended and Restated Refund Anticipation Loan Participation Agreement dated as of December 31, 2004, between Block Financial Corporation, HSBC Taxpayer Financial Services, Inc. and Household Tax Masters Acquisition Corporation, filed as Exhibit 10.2 to the quarterly report on Form 10-Q for the quarter ended January 31, 2005, file number 1-6089, is incorporated herein by reference.
- 10.30 2004 Amendment to Second Amended and Restated Refund Anticipation Loan Operations Agreement dated as of

August 20, 2004, by and among H&R Block Services, Inc., Household Tax Masters, Inc., and Beneficial Franchise Company, filed as Exhibit 10.3 to the quarterly report on Form 10-Q for the quarter ended October 31, 2004, file number 1-6089, is incorporated herein by reference.**

- 10.31 Second Amendment to Second Amended and Restated Refund Anticipation Loan Operations Agreement dated as of August 31, 2005 among H&R Block Services, Inc., H&R Block Tax Services, Inc. HRB Royalty, Inc. HSBC Taxpayer Financial Services, Inc., HSBC Bank USA, National Association and Beneficial Franchise Company filed as Exhibit 10.23 to the quarterly report on Form 10-Q for the quarter ended October 31, 2005, file number 1-6089, is incorporated herein by reference.**
- 10.32 HSBC Retail Settlement Products Distribution Agreement dated as of September 23, 2005, among HSBC Bank USA, National Association, HSBC Taxpayer Financial Services Inc., Beneficial Franchise Company Inc., Household Tax Masters Acquisition Corporation, H&R Block Services, Inc., H&R Block Tax Services, Inc., H&R Block Enterprises, Inc., H&R Block Eastern Enterprises, Inc., H&R Block Digital Tax Solutions, LLC, H&R Block Associates, L.P., HRB Royalty, Inc., HSBC Finance Corporation and H&R Block, Inc., filed as Exhibit 10.14 to the quarterly report on Form 10-Q for the quarter ended October 31, 2005, file number 1-6089, is incorporated herein by reference. **
- 10.33 HSBC Digital Settlement Products Distribution Agreement dated as of September 23, 2005, among HSBC Bank USA, National Association, HSBC Taxpayer Financial Services Inc., H&R Block Digital Tax Solutions, LLC, and H&R Block Services, Inc., filed as Exhibit 10.15 to the quarterly report on Form 10-Q for the quarter ended October 31, 2005, file number 1-6089, is incorporated herein by reference. **
- 10.34 HSBC Refund Anticipation Participation Agreement dated as of September 23, 2005, among Household Tax Masters Acquisition

Corporation, Block Financial Corporation, HSBC Bank USA, National Association and HSBC Taxpayer Financial Services Inc., filed as Exhibit 10.16 to the quarterly report on Form 10-Q for the quarter ended October 31, 2005, file number 1-6089, is incorporated herein by reference. **

- 10.35 HSBC Settlement Products Servicing Agreement dated as of September 23, 2005, among HSBC Bank USA, National Association, HSBC Taxpayer Financial Services Inc., Household Tax Masters Acquisition Corporation and Block Financial Corporation, filed as Exhibit 10.17 to the quarterly report on Form 10-Q for the quarter ended October 31, 2005, file number 1-6089, is incorporated herein by reference. **
- 10.36 HSBC Program Appendix of Defined Terms and Rules of Construction, filed as Exhibit 10.18 to the quarterly report on Form 10-Q for the quarter ended October 31, 2005, file number 1-6089, is incorporated herein by reference. **
- 10.37 Agreement of Settlement dated December 23, 2005 among H&R Block, Inc., H&R Block Services, Inc., H&R Block Tax Services, Inc., Block Financial Corporation, HRB Royalty, Inc., H&R Block Eastern Enterprises, Inc., Deadra D. Cummins, Ivan and La Donna Bell, Levon Mitchell, Geral Mitchell, Joyce Green, Lynn Becker, Justin Sevey, Maryanne Hoekman and Renea Griffith, filed as Exhibit 10.5 to the quarterly report on Form 10-Q for the quarter ended January 31, 2006, file number 1-6089, is incorporated herein by reference.*
- 10.38 Agreement of Settlement dated April 19, 2006 among HSBC Finance Corporation, HSBC Taxpayer Financial Services Inc., Beneficial Franchise Company, Inc., H&R Block, Inc., H&R Block Services, Inc., H&R Block Tax Services, Inc., Block Financial Corporation, HRB Royalty, Inc., H&R Block Eastern Enterprises, Inc., and Lynne A. Carnegie.
- 10.39 Amended and Restated Five-Year Credit and Guarantee Agreement dated as of August 10, 2005 among Block Financial Corporation, H&R Block, Inc., the lenders party thereto, Bank of America, N.A., HSBC Bank USA, National Association, Royal Bank of Scotland PLC, JPMorgan Chase Bank, N.A., and J.P Morgan Securities Inc., filed as Exhibit 10.3 to the quarterly report on Form 10-Q for the quarter ended October 31, 2005, file number 1-6089, is incorporated herein by reference.
- 10.40 Five-Year Credit and Guarantee Agreement dated as of August 10, 2005 among Block Financial Corporation, H&R Block, Inc., the lenders party thereto, Bank of America, N.A., HSBC Bank USA, National Association, The Royal Bank of Scotland PLC, JPMorgan Chase Bank, N.A. and J.P. Morgan Securities, Inc., filed as Exhibit 10.4 to the quarterly report on Form 10-Q for the quarter ended October 31, 2005, file number 1-6089, is incorporated herein by reference.
- 10.41 License Agreement dated as of June 30, 2004 by and between Sears, Roebuck and Co. and H&R Block Services, Inc., filed as Exhibit 10.3 to the quarterly report on Form 10-Q for the quarter ended July 31, 2004, file number 1-6089, is incorporated herein by reference.
- 10.42 Other Income License Agreement (Products and/or Services) dated September 15, 2005 between Wal*Mart Stores, Inc. and H&R Block Services, Inc., filed as Exhibit 10.9 to the Company's quarterly report on Form 10-Q for the quarter ended October 31, 2005, file number 1-6089, is incorporated by reference
- 10.43 Standard Form of Agreement Between Owner and Designer/Builder dated as of May 5, 2003 by and between H&R Block Tax Services, Inc. and J.E. Dunn Construction Company, filed as Exhibit 10.2 to the quarterly report on Form 10-Q for the quarter ended October 31, 2004, file number 1-6089, is incorporated herein by reference.
- 10.44 Sale and Servicing Agreement dated as of June 1, 2005 among Option One Mortgage Corporation, Option One Loan Warehouse Corporation, Option One Owner Trust 2005-6 and Wells Fargo Bank, N.A., filed as Exhibit 10.1 to the quarterly report on Form 10-Q for the quarter ended July 31, 2005, file number 1-6089, is incorporated herein by reference.
- 10.45 Note Purchase Agreement dated as of June 1, 2005 among Option One Loan Warehouse Corporation, Option One Owner Trust 2005-6 and Lehman Brothers Bank., filed as Exhibit 10.2 to the quarterly report on Form 10-Q for the quarter ended July 31, 2005, file number 1-6089, is incorporated herein by reference.
- 10.46 Indenture dated as of June 1, 2005 between Option One Owner Trust 2005-6 and Wells Fargo Bank, N.A., filed as Exhibit 10.3 to the quarterly report on Form 10-Q for the quarter ended July 31, 2005, file number 1-6089, is incorporated herein by reference.
- 10.47 Fourth Amended and Restated Loan Purchase and Contribution Agreement dated as of September 1, 2005 between Option One Loan Warehouse Corporation and Option One Mortgage Corporation, filed as Exhibit 10.22 to the quarterly report on Form 10-Q for the quarter ended October 31, 2005, file number 1-6089, is incorporated herein by reference.
- 10.48 Amended and Restated Sales and Servicing Agreement dated November 12, 2004 among Option One Owner Trust 2003-5, Option One Loan Warehouse Corporation, Option One Mortgage Corporation and Wells Fargo Bank, N.A., filed as Exhibit 10.4 to the quarterly report on Form 10-Q for the quarter ended January 31, 2005, file number 1-6089, is incorporated

herein by reference.

- 10.49 Amendment Number One to the Amended and Restated Sale and Servicing Agreement dated November 11, 2005 among Option One Mortgage Corporation, Option One Loan Warehouse Corporation, Option One Owner Trust 2003-5 and Wells Fargo Bank, N.A., filed as Exhibit 10.1 to the quarterly report on Form 10-Q for the quarter ended January 31, 2006, file number 1-6089, is incorporated herein by reference.
- 10.50 Note Purchase Agreement dated November 14, 2003 between Option One Owner Trust 2003-5, Option One Loan Warehouse Corporation and Citigroup Global Markets Realty Corp., filed as Exhibit 10.5 to the quarterly report on Form 10-Q for the quarter ended January 31, 2005, file number 1-6089, is incorporated herein by reference.
- 10.51 Amendment Number One to the Note Purchase Agreement, dated November 14, 2004, among Option One Owner Trust 2003-5, Option One Loan Warehouse Corporation and Citigroup Global Markets Realty Corp., filed as Exhibit 10.6 to the quarterly report on Form 10-Q for the quarter ended January 31, 2005, file number 1-6089, is incorporated herein by reference.
- 10.52 Indenture dated as of November 1, 2003 between Option One Owner Trust 2003-5 and Wells Fargo Bank Minnesota, National Association, filed as Exhibit 10.7 to the quarterly report on Form 10-Q for the quarter ended January 31, 2005, file number 1-6089, is incorporated herein by reference.
- 10.53 Second Amended and Restated Sale and Servicing Agreement dated as of March 8, 2005 among Option One Owner Trust 2001-2, Option One Loan Warehouse Corporation, Option One Mortgage Corporation and Wells Fargo Bank Minnesota, National Association,

filed as Exhibit 10.40 to the Company's annual report on Form 10-K for the year ended April 30, 2005, file number, 1-6089, is incorporated by reference.

- 10.54 Amendment No. 1 to Second Amended and Restated Sale and Servicing Agreement dated March 8, 2005 among Option One Owner Trust 2001-2, Option One Mortgage Corporation, Option One Loan Warehouse Corporation and Wells Fargo Bank, N.A., filed as Exhibit 10.4 to the Company's quarterly report on Form 10-Q for the quarter ended July 31, 2005, file number, 1-6089, is incorporated by reference.
- 10.55 Amendment Number Two to the Second Amended and Restated Sale and Servicing Agreement dated March 8, 2005 among Option One Owner Trust 2001-2, Option One Loan Warehouse Corporation, Option One Mortgage Corporation and Wells Fargo Bank, N.A., filed as Exhibit 10.12 to the Company's quarterly report on Form 10-Q for the quarter ended October 31, 2005, file number, 1-6089, is incorporated by reference.
- 10.56 Amendment Number Three to the Second Amended and Restated Sale and Servicing Agreement dated March 8, 2005 among Option One Owner Trust 2001-2, Option One Loan Warehouse Corporation, Option One Mortgage Corporation and Wells Fargo Bank, N.A., filed as Exhibit 10.12 to the Company's quarterly report on Form 10-Q for the quarter ended October 31, 2005, file number, 1-6089, is incorporated by reference.
- 10.57 Amendment Number Four to the Second Amended and Restated Sale and Servicing Agreement dated March 8, 2005 among Option One Owner Trust 2001-2, Option One Loan Warehouse Corporation, Option One Mortgage Corporation and Wells Fargo Bank, N.A., filed as Exhibit 10.2 to the Company's quarterly report on Form 10-Q for the quarter ended January 31, 2006, file number, 1-6089, is incorporated by reference.
- 10.58 Amended and Restated Note Purchase Agreement dated as of November 25, 2003, among Option One Owner Trust 2001-2, Option One Loan Warehouse Corporation and Bank of America, N.A., filed as Exhibit 10.11 to the quarterly report on Form 10-Q for the quarter ended January 31, 2005, file number 1-6089, is incorporated herein by reference.
- 10.59 Amendment Number Seven to Amended and Restated Note Purchase Agreement, dated November 25, 2005, among Option One Loan Warehouse Corporation, Option One Owner Trust 2001-2 and Bank of America, N.A., filed as Exhibit 10.3 to the quarterly report on Form 10-Q for the quarter ended January 31, 2006, file number 1-6089, is incorporated herein by reference.
- 10.60 Amended and Restated Indenture dated as of November 25, 2003 between Option One Owner Trust 2001-2 and Wells Fargo Bank Minnesota, National Association, filed as Exhibit 10.14 to the quarterly report on Form 10-Q for the quarter ended January 31, 2005, file number 1-6089, is incorporated herein by reference.
- 10.61 Amendment Number Eight to the Amended and Restated Indenture dated as of November 25, 2003 between Option One Owner Trust 2001-2 and Wells Fargo Bank Minnesota, N.A., filed as Exhibit 10.4 to the quarterly report on Form 10-Q for the quarter ended January 31, 2006, file number 1-6089, is incorporated herein by reference.
- 10.62 Letter Agreement dated as of April 1, 2000 among Option One Mortgage Corporation and Bank of America N.A., filed as Exhibit 10.15 to the quarterly report on Form 10-Q for the quarter ended January 31, 2005, file number 1-6089, is incorporated by reference.
- 10.63 Amended and Restated Note Purchase Agreement dated as of March 18, 2005 among Option One Owner Trust 2002-3, UBS Real Estate Securities Inc. and Option One Mortgage Corporation, filed as Exhibit 10.46 to the Company's annual report on Form 10-K for the year ended April 30, 2005, file number, 1-6089, is incorporated by reference.
- 10.64 Amended and Restated Sale and Servicing Agreement dated as of March 18, 2005, among Option One Owner Trust 2002-3, Option One Loan Warehouse Corporation, Option One Mortgage Corporation and Wells Fargo Bank, N.A., filed as Exhibit 10.47 to the Company's annual report on Form 10-K for the year ended April 30, 2005, file number, 1-6089, is incorporated by reference.
- 10.65 Omnibus Amendment No. 1 dated as of September 8, 2005 among Option One Mortgage Corporation, Option One Owner Trust 2002-3 and Wells Fargo Bank, N.A., filed as Exhibit 10.8 to the Company's quarterly report on Form 10-Q for the quarter ended October 31, 2005, file number 1-6089, is incorporated by reference.
- 10.66 Second Amended and Restated Sale and Servicing Agreement dated as of April 29, 2005 among Option One Owner Trust 2001-1A, Option One Loan Warehouse Corporation, Option One Mortgage Corporation and Wells Fargo Bank, N.A., filed as Exhibit 10.48 to the Company's annual report on Form 10-K for the year ended April 30, 2005, file number, 1-6089, is incorporated by reference.
- 10.67 Amendment Number One to Second Amended and Restated Sale and Servicing Agreement dated as of April 29, 2005 among Option One Owner Trust 2001-1A, Option One Loan Warehouse Corporation, Option One Mortgage Corporation and

Wells Fargo Bank, N.A., filed as Exhibit 10.6 to the quarterly report of Form 10-Q for the quarter ended July 31, 2005, file number 1-6089, is incorporated herein by reference.

- 10.68 Indenture dated as of April 1, 2001 between Option One Owner Trust 2001-1A and Wells Fargo Bank Minnesota, National Association, filed as Exhibit 10.49 to the Company's annual report on Form 10-K for the year ended April 30, 2005, file number, 1-6089, is incorporated by reference.
- 10.69 Amendment Number Four, dated April 16, 2004, to Indenture between Option One Owner Trust 2001-1A and Wells Fargo Bank Minnesota, National Association, as amended and restated through and including November 25, 2003, filed as Exhibit 10.50 to the Company's annual report on Form 10-K for the year ended April 30, 2005, file number, 1-6089, is incorporated by reference.
- 10.70 Amendment Number Seven, dated April 28, 2006, to Indenture between Option One Owner Trust 2001-1A and Wells Fargo Bank N.A.
- 10.71 Amended and Restated Note Purchase Agreement dated as of April 16, 2004, among Option One Owner Trust 2001-1A, Option One Loan Warehouse Corporation and Greenwich Capital Financial Products, Inc., filed as Exhibit 10.53 to the Company's annual report on Form 10-K for the year ended April 30, 2005, file number, 1-6089, is incorporated by reference.
- 10.72 Amendment No. 1 to Amended and Restated Note Purchase Agreement dated as of April 29, 2005 among Option One Owner Trust 2001-1A, Greenwich Capital Financial Products, Inc. and

Option One Loan Warehouse Corporation, filed as Exhibit 10.54 to the Company's annual report on Form 10-K for the year ended April 30, 2005, file number, 1-6089, is incorporated by reference.

- 10.73 Second Amended and Restated Sale and Servicing Agreement dated as of April 29, 2005 among Option One Owner Trust 2001-1B, Option One Loan Warehouse Corporation, Option One Mortgage Corporation and Wells Fargo Bank, N.A. filed as Exhibit 10.55 to the Company's annual report on Form 10-K for the year ended April 30, 2005, file number, 1-6089, is incorporated by reference.
- 10.74 Amendment Number One to Second Amended and Restated Sale and Servicing Agreement dated as of April 29, 2005 among Option One Owner Trust 2001-1B, Option One Loan Warehouse Corporation, Option One Mortgage Corporation and Wells Fargo Bank, N.A., filed as Exhibit 10.7 to the quarterly report of Form 10-Q for the quarter ended July 31, 2005, file number 1-6089, is incorporated herein by reference.
- 10.75 Indenture dated as of April 1, 2001 between Option One Owner Trust 2001-1B and Wells Fargo Bank Minnesota, National Association, filed as Exhibit 10.56 to the Company's annual report on Form 10-K for the year ended April 30, 2005, file number, 1-6089, is incorporated by reference.
- 10.76 Amendment Number Five, dated April 16, 2004, to Indenture between Option One Owner Trust 2001-1B and Wells Fargo Bank Minnesota, National Association, as amended and restated through and including November 25, 2003, filed as Exhibit 10.57 to the Company's annual report on Form 10-K for the year ended April 30, 2005, file number, 1-6089, is incorporated by reference.
- 10.77 Amendment Number Eight, dated April 28, 2006, to Indenture between Option One Owner Trust 2001-1B and Wells Fargo Bank N.A.,
- 10.78 Amended and Restated Note Purchase Agreement dated as of April 16, 2004, among Option One Owner Trust 2001-1B, Option One Loan Warehouse Corporation and Steamboat Funding Corporation, filed as Exhibit 10.60 to the Company's annual report on Form 10-K for the year ended April 30, 2005, file number, 1-6089, is incorporated by reference.
- 10.79 Amendment No. 1 to Amended and Restated Note Purchase Agreement dated as of April 29, 2005 among Option One Owner Trust 2001-1B, Steamboat Funding Corporation and Option One Loan Warehouse Corporation, filed as Exhibit 10.61 to the Company's annual report on Form 10-K for the year ended April 30, 2005, file number, 1-6089, is incorporated by reference.
- 10.80 Amended and Restated Sale and Servicing Agreement dated as of August 5, 2005 among Option One Mortgage Corporation, Option One Loan Warehouse Corporation, Option One Owner Trust 2003-4 and Wells Fargo Bank Minnesota, National Association, filed as Exhibit 10.1 to the quarterly report on Form 10-Q for the quarter ended October 31, 2006, file number 1-6089, is incorporated herein by reference.
- 10.81 Indenture dated as of August 8, 2003 between Option One Owner Trust 2003-4 and Wells Fargo Bank Minnesota, National Association, filed as Exhibit 10.65 to the Company's annual report on Form 10-K for the year ended April 30, 2005, file number 1-6089, is incorporated by reference.
- 10.82 Amended and Restated Note Purchase Agreement dated as of August 5, 2005 among Option One Mortgage Corporation, Option One Loan Warehouse Corporation, Option One Owner Trust 2003-4, Falcon Asset Securitization Corporation, Jupiter Securitization Corporation, Preferred Receivables Funding Corporation, financial institutions thereto and JP Morgan Chase Bank, N.A., filed as Exhibit 10.2 to the quarterly report on Form 10-Q for the quarter ended October 31, 2006, file number 1-6089, is incorporated herein by reference.
- 10.83 Sale and Servicing Agreement dated as of September 1, 2005 among Option One Mortgage Corporation, Option One Loan Warehouse Corporation, Option One Owner Trust 2005-7 and Wells Fargo Bank, filed as Exhibit 10.5 to the Company's quarterly report on Form 10-Q for the quarter ended October 31, 2005, file number 1-6089, is incorporated by reference.
- 10.84 Note Purchase Agreement dated as of September 1, 2005 between Option One Loan Warehouse Corporation, Option One Owner Trust 2005-7, HSBC Securities (USA) Inc., HSBC Bank USA, N.A., Bryant Park Funding LLC and HSBC Securities (USA) Inc., filed as Exhibit 10.6 to the Company's quarterly report on Form 10-Q for the quarter ended October 31, 2005, file number 1-6089, is incorporated by reference.
- 10.85 Indenture dated as of September 1, 2005 between Option One Owner Trust 2005-7 and Wells Fargo Bank, N.A. , filed as Exhibit 10.7 to the Company's quarterly report on Form 10-Q for the quarter ended October 31, 2005, file number 1-6089, is incorporated by reference.
- 10.86 Sale and Servicing Agreement dated as of October 1, 2005 among Option One Mortgage Corporation, Option One Loan Warehouse Corporation, Option One Owner Trust 2005-8 and Wells Fargo Bank, N.A., filed as Exhibit 10.19 to the

Company's quarterly report on Form 10-Q for the quarter ended October 31, 2005, file number 1-6089, is incorporated by reference.

- 10.87 Note Purchase Agreement dated as of October 1, 2005 among Option One Loan Warehouse Corporation, Option One Owner Trust 2005-8 and Merrill Lynch Bank USA, filed as Exhibit 10.20 to the Company's quarterly report on Form 10-Q for the quarter ended October 31, 2005, file number 1-6089, is incorporated by reference.
- 10.88 Indenture dated as of October 1, 2005 between Option One Owner Trust 2005-8 and Wells Fargo Bank, N.A. , filed as Exhibit 10.21 to the Company's quarterly report on Form 10-Q for the quarter ended October 31, 2005, file number 1-6089, is incorporated by reference.
- 10.89 Sale and Servicing Agreement dated as of December 30, 2005 among Option One Mortgage Corporation, Option One Loan Warehouse Corporation, Option One Owner Trust 2005-9 and Wells Fargo Bank, N.A., filed as Exhibit 10.6 to the Company's quarterly report on Form 10-Q for the quarter ended January 31, 2006, file number 1-6089, is incorporated by reference.
- 10.90 Note Purchase Agreement dated as of December 30, 2005 among Option One Loan Warehouse Corporation, Option One Owner Trust 2005-9 DB Structured Products, Inc., Gemini Securitization Corp., LLC, Aspen Funding Corp. and Newport Funding Corp., filed as Exhibit 10.7 to the Company's quarterly report on Form 10-Q for the quarter ended January 31, 2006, file number 1-6089, is incorporated by reference.
- 10.91 Indenture dated as of December 30, 2005 between Option One Owner Trust 2005-9 and Wells Fargo Bank, N.A. , filed as Exhibit 10.8 to the Company's quarterly report on Form 10-Q for the quarter ended January 31, 2006, file number 1-6089, is incorporated by reference.
- 12 Computation of Ratio of Earnings to Fixed Charges for the five years ended April 30, 2006.
- 21 Subsidiaries of the Company.
- 23.1 Consent of KPMG LLP, Independent Registered Public Accounting Firm.
- 31.1 Certification by Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification by Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification by Chief Executive Officer pursuant to 18 U.S.C. 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification by Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002.

* Indicates management contracts, compensatory plans or arrangements.

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

Report of Independent Registered Public Accounting Firm on Schedule

To the Board of Directors and Stockholders of H&R Block, Inc.:

Under date of June 29, 2006, we reported on the consolidated balance sheets of H&R Block, Inc. and its subsidiaries (the Company) as of April 30, 2006 and 2005, and the related consolidated statements of income and comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended April 30, 2006, which are included in the Company's annual report filed on Form 10-K. In connection with our audits of the aforementioned consolidated financial statements, we also audited the related financial statement schedule for each of the years in the three-year period ended April 30, 2006, included in the Form 10-K. In our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

The audit report on the consolidated financial statements of H&R Block, Inc. and its subsidiaries referred to above contains an explanatory paragraph stating that, as discussed in note 1 to the consolidated financial statements, the Company changed its method of accounting to adopt Emerging Issues Task Force Issue No. 00-21, *Revenue Arrangements with Multiple Deliverables*, during the year ended April 30, 2004.

/s/ KPMG LLP

Kansas City, Missouri
June 29, 2006

H&R BLOCK, INC.
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

YEARS ENDED APRIL 30, 2006, 2005 AND 2004

Description	Balance at Beginning of Period	<div style="border-bottom: 1px solid black; display: inline-block; text-align: center;"> Additions Charged to Costs and Expenses </div>	Deductions ⁽¹⁾	Balance at End of Period
Allowance for Doubtful Accounts - deducted from accounts receivable in the balance sheet				
2006	\$ 35,352,000	\$ 39,746,000	\$ 8,835,000	\$ 66,263,000
2005	\$ 37,424,000	\$ 52,221,000	\$ 54,293,000	\$ 35,352,000
2004	\$ 14,329,000	\$ 53,663,000	\$ 30,568,000	\$ 37,424,000
Liability related to Mortgage Services restructuring charge				
2006	\$ -	\$ 12,624,000	\$ 5,066,000	\$ 7,558,000

⁽¹⁾ Deductions from the Allowance for Doubtful Accounts reflect recoveries and charge-offs. Deductions from the restructuring charge liability represent payments made.

H&R BLOCK EXECUTIVE PERFORMANCE PLAN
(AS AMENDED)

ARTICLE I. GENERAL

SECTION 1.1 PURPOSE

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

SECTION 1.2 ADMINISTRATION

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

SECTION 1.3 ELIGIBILITY

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

ARTICLE II. AWARDS

SECTION 2.1 AWARDS

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

Target relates in arriving at the actual Award payout amount pursuant to Section 2.4 ("Performance Schedules"). The Committee shall specify the Performance Targets applicable to each Participant for each Performance Period and shall further specify the portion of the Target Award to which each Performance Target shall apply. In no event shall a Performance Schedule include a Performance

Percentage in excess of 200%.

SECTION 2.2 PERFORMANCE TARGETS

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

SECTION 2.3 EMPLOYMENT REQUIREMENT

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

SECTION 2.4 DETERMINATION OF AWARDS

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

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

SECTION 2.5 LIMITATIONS ON AWARDS

The aggregate amount of all Awards under the Plan to any Participant for any Performance Period shall not exceed \$1,000,000.

SECTION 2.6 PAYMENT OF AWARDS

Payment of Awards shall be made by the Company or the applicable employer subsidiary as soon as administratively practical following the certification by the Committee of the extent to which the applicable Performance Targets have been achieved and the determination of the actual Awards in accordance with Sections 2.4 and 2.5. All Awards under the Plan are subject to withholding, where applicable, for federal, state and local taxes.

SECTION 2.7 ADJUSTMENT OF AWARDS

In the event of the occurrence during the Performance Period of any recapitalization, reorganization, merger, acquisition, divestiture,

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

ARTICLE III. MISCELLANEOUS

SECTION 3.1 NO RIGHTS TO AWARDS OR CONTINUED EMPLOYMENT

No employee of the Company or any of its subsidiaries shall have any claim or right to receive Awards under the Plan. Neither the Plan nor any action taken under the Plan shall be construed as giving any employee any right to be retained by the Company or any subsidiary of the Company.

SECTION 3.2 NO LIMITS ON OTHER AWARDS AND PLANS

Nothing contained in this Plan shall prohibit the Company or any of its subsidiaries from establishing other special awards or incentive compensation plans providing for the payment of incentive compensation to employees of the Company and its subsidiaries, including any Participants.

SECTION 3.3 RESTRICTION ON TRANSFER

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

SECTION 3.4 SOURCE OF PAYMENTS

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

SECTION 3.5 EFFECTIVE DATE; TERM; AMENDMENT

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

SECTION 3.6 PROHIBITED OR UNENFORCEABLE PROVISIONS

Any provision of the Plan that is prohibited or unenforceable shall be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions of the Plan.

SECTION 3.7 SECTION 162(M) PROVISIONS

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

SECTION 3.8 GOVERNING LAW

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

AGREEMENT OF SETTLEMENT

This Agreement of Settlement (together with all appendices, exhibits, schedules and attachments hereto, the "Agreement"), dated this 19th day of April, 2006, is made by and among HSBC Finance Corporation f/k/a Household International, Inc., (on behalf of itself, Household Finance Corporation, Household Bank, f.s.b. and Beneficial National Bank), HSBC Taxpayer Financial Services Inc. (f/k/a Household Tax Masters Inc. and Beneficial Tax Masters Inc.), and Beneficial Franchise Company, Inc., for themselves and all persons or entities acting on their behalf or at their direction (collectively, the "Beneficial Defendants"); H&R Block, Inc., H&R Block Services, Inc., H&R Block Tax Services, Inc., Block Financial Corp., HRB Royalty, Inc., H&R Block Eastern Enterprise, Inc., successor to H&R Block Eastern Tax Services, Inc., for themselves and all persons or entities acting on their behalf or at their direction (collectively, the "Block Defendants"), collectively the "Settling Defendants," on the one hand, and Lynne A. Carnegie ("Plaintiff"), on behalf of herself individually and on behalf of the Class as defined in Article II, Section 4, on the other hand (all of the foregoing mentioned in this sentence, the "Settling Parties," "Parties" or "Party"). This Agreement is intended by the Settling Parties to fully, finally and forever compromise, resolve, discharge and settle the Released Claims subject to the terms and conditions set forth below.

I. CLAIMS OF THE PARTIES

1. The Beneficial Defendants and the Block Defendants (collectively the "Settling Defendants") and/or their Affiliates have been involved, together and separately, in offering or assisting lenders in offering Refund Anticipation Loans ("RALs") at some point from 1987 to the present. A RAL is a patented method by which tax customers, for a fee, can take out a loan that is secured by and expected to be repaid from the anticipated proceeds of their tax refunds.

2. In April 1998, a class action was filed in the United States District Court for the Northern District of Illinois (the "Court") against some of the Settling Defendants captioned Zawikowski, et al. v. Beneficial National Bank, et al., No. 98 C 2178 (until May 2003, the "Zawikowski Action"). In May 2003, Plaintiff Lynne A. Carnegie was appointed the new class representative and the attorneys identified in Article II, Section 5 were appointed as class counsel ("Class Counsel"). The caption of the case was amended to read Carnegie, et al. v. Household Int'l Inc., et al., No. 98 C 2178 (the "Action").

3. On or about June 17, 2003, Plaintiff filed a Second Amended Class Action Complaint (the "Complaint") against all of the Settling Defendants. The Complaint charges the Settling Defendants with violating the Truth-in-Lending Act ("TILA") and the Racketeer Influenced and Corrupt Organizations Act ("RICO"), breaching fiduciary duties to Plaintiff, suborning the alleged breach of fiduciary duties to Plaintiff, violating the Illinois Consumer Fraud and Deceptive Business Practices Act or other similar state consumer fraud statutes, breaching their contractual obligations to Plaintiff and of being unjustly enriched. The Complaint seeks both equitable relief and damages.

4. The Court certified a conditional settlement class in this Action on January 5, 2000 that included all persons who did not request exclusion in accordance with the procedures provided by the Court in connection with the subsequently rejected settlement of the Zawikowski Action who obtained a RAL through an office operating under the trade name of H&R Block (including franchisee or sub-franchisee offices of H&R Block or any H&R Block offices such as in Sears stores); or received a RAL from Beneficial National Bank or Household Bank, f.s.b. at any time from January 1, 1987 to October 26, 1999. Excluded from the settlement class as to the Block Defendants were Pennsylvania-resident H&R Block RAL customers who received a RAL

during the years 1990 through 1993 through an H&R Block entity office located in the Commonwealth of Pennsylvania; and, as to all the Settling Defendants, customers of Jackson Hewitt, Inc. who received a RAL from Beneficial National Bank at any time during the period from December 11, 1992 through December 31, 1995. Also excluded were members of the certified class in Peterson v. H&R Block Tax Services, No 96 C 6647 (Cook Cty.), then pending in Illinois state court.

5. On March 29, 2004, the Court narrowed the original settlement class when certifying a merits litigation class by enforcing the arbitration agreement governing all RAL transactions entered into after December 31, 1996. The Court's ruling excluded from the class any person who obtained a RAL after December 31, 1996. The Court also decertified class claims based on state law other than a breach of contract claim against the BNB Defendants, dismissed a breach of contract claim against the HRB Defendants, dismissed TILA claims against all the Defendants, and dismissed two of the four alleged RICO claims against all the Defendants.

6. On January 23, 2006, the Court further narrowed the original class by enforcing applicable statute of limitations for the remaining RICO and breach of contract claims. The Court's ruling entered judgment against any person who obtained a RAL before April 8, 1994 for the RICO claims, and before April 8, 1995 for the breach of contract claim against the Beneficial Defendants. After this ruling, the Class was comprised of individuals who obtained a RAL from Beneficial National Bank through an H&R Block office from April 8, 1994 through December 31, 1996.

7. Over the past 14 years, Class Counsel has conducted an investigation of the facts, including reviews of the Settling Defendants' relevant documents and depositions of the Settling

Defendants' representatives, and analyzed the relevant legal issues. While Plaintiff and Class Counsel believe that the claims asserted in the Complaint have merit, they have also examined the benefits to be obtained under the proposed settlement and have considered the costs, risks and delays associated with the continued prosecution of this time-consuming litigation and the likely appeals of any rulings in favor of either Plaintiff or the Settling Defendants, including the rulings previously made by this Court that decertified state law claims, dismissed TILA claims against the Settling Defendants, and enforced arbitration provisions for class members who obtained RALs after December 31, 1996. Plaintiff desires to resolve the claims asserted against the Settling Defendants.

8. Plaintiff and Class Counsel believe that, in consideration of all the circumstances and after prolonged and serious arms-length settlement negotiations with counsel for the Settling Defendants, the proposed settlement embodied in this Agreement ("Settlement") is fair, reasonable, adequate and in the best interests of the Class.

9. The Settling Defendants have vigorously denied, and continue to deny, all liability with respect to any and all of the facts or claims alleged in the Complaint or other actions, deny that they engaged in any wrongdoing, deny that they acted improperly in any way, and deny any liability to Plaintiff, any member of the Class, or any third party. The Settling Defendants nevertheless desire to settle the Action on the terms and conditions set forth in this Agreement solely for the purpose of avoiding the burden, expense, risk and uncertainty of continuing the proceedings in the Action, and for the purpose of putting to rest all controversies among the Parties. In no event is this Agreement to be construed as, or is to be deemed evidence of, an admission or concession on the part of the Settling Defendants or Released Parties (as

defined herein) with respect to: any claim by Plaintiff and the Class; any fault, liability, wrongdoing or

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damage; the merits of any defenses that the Settling Defendants asserted; or the propriety of class certification of the Class if the Action were to be litigated rather than settled.

10. In August 2005 the parties engaged in a formal mediation session with Thomas Meites, a mediator suggested to the Parties by the Court, which was unsuccessful. On March 20 and 21, 2006, the Parties conducted extensive arms-length negotiations during additional mediation sessions with mediator Thomas Meites, which resulted in this Agreement.

11. The Parties intend that the proposed settlement embodied in this Agreement resolves all claims and disputes between Plaintiff, Class Members, the Settling Defendants, and all Released Parties with respect to the Released Claims.

II. DEFINITIONS

In addition to the terms defined elsewhere in this Agreement, for purposes of this Agreement and all its Appendices or Exhibits, the following terms shall have the meanings as set forth below.

1. "Administration" or "Administration Costs" means the act of, and the costs associated with, administering the settlement, including but not limited to maintaining an e-filing process for claims of class members, processing returned and/or undeliverable mail, including updating databases to reflect such returned and/or undeliverable mail, processing claims forms, responding to class member inquiries, dealing with disputes from class members, distributing checks to class members, preparing and disseminating reports to Class Counsel about administrative issues, preparing and filing any tax returns necessary with respect to the Settlement Fund and post-distribution settlement administration and related activities. Administration Costs do not include Notice Costs.

2. "Administrator" means the third party administrator to be hired by the Plaintiff to

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handle all or parts of Notice and Administration.

3. "Affiliates" means (i) all past, present or future persons or entities of any kind controlling, controlled by, or under common ownership with any of the Settling Defendants and their respective predecessors and successors, including without limitation any parent companies, subsidiaries, sister companies, or divisions, and (ii) any and all persons or entities acting on behalf of or at the direction of any of the foregoing, including but not limited to any franchisee of any Settling Defendant. For the purpose of this definition, "control" of a person shall mean the possession, directly or indirectly, of the power to direct or cause the direction of its management or policies, whether through the ownership of voting securities, by contract or otherwise.

4. The "Class" includes the following: All persons in the United States who received a Refund Anticipation Loan ("RAL") (sometimes referred to as "Rapid Refund") from Beneficial National Bank through any H&R Block office anytime between April 8, 1994 through December 31, 1996. Excluded from the Class are the following:

(a) Anyone, who for the first time, received a RAL through an H&R

Block office from Beneficial National Bank after December 31, 1996;

(b) Anyone who received a RAL from H&R Block, Beneficial National Bank or Household Bank between April 8, 1994 and December 31, 1996, and who also received a RAL in 1997, 1998, or 1999;

(c) Anyone who asked to be excluded from the Zawikowski v. Beneficial National Bank case;

(d) Customers of Jackson Hewitt, Inc. who only received a RAL from Beneficial National Bank from December 11, 1992 through December 31, 1995; and

(e) Anyone who was a member of the Peterson v. H&R Block Tax Services,

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Inc. (Cook County Circuit Court No. 96 C 6647) class action settlement.

(f) Individuals who submit timely requests for exclusion from the Class.

5. "Class Counsel" means and includes the following:

Steven E. Angstreich, Esq.
Michael Coren, Esq.
Carolyn C. Lindheim, Esq.
Co-Lead Class Counsel
Levy Angstreich Finney Baldante
Rubenstein & Coren, P.C.
1616 Walnut Street, 5th Floor
Philadelphia, PA 19103
Fax: 215 545-2642

Ronald L. Futterman, Esq.
William W. Thomas, Esq.
Local Class Counsel
Futterman & Howard, Chtd.
122 South Michigan Avenue -Suite 1850
Chicago, IL 60603
Fax: 312 427-1850

Peter S. Linden, Esq.
Daniel Hume, Esq.
Co-Lead Class Counsel
Kirby McInerney & Squire, LLP
830 Third Avenue, 10th Floor
New York, NY 10022
Fax: 212 751 2540

Michael B. Hyman, Esq.
William H. London, Esq.
Local Class Counsel
Much Shelist Freed Denenberg
Ament & Rubenstein, P.C.
191 North Wacker, Suite 1800
Chicago, IL 60606
Fax: 312 521-2100

Steven A. Martino, Esq.
W. Lloyd Copeland, Esq.
Frederick T. Kuykendall, III, Esq.
Class Counsel
Martino, Taylor & Kuykendall
Southtrust Bank Building
61 St. Joseph Street, Suite 1600

6. "Class Members" or "Members of the Class" as the context may require, means all persons who are included in the class definition in Paragraph 4 above, and who do not validly and timely elect exclusion from the Class pursuant to Fed. R. Civ. P. 23 and under the conditions and procedures as determined by the Court.

7. The "Class Period" shall mean April 8, 1994 through December 31, 1996.

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8. The "Effective Date" for purposes of the Settlement shall be five (5) business days after the latest of the following dates: (a) the date upon which the time to commence an appeal of the Final Order has expired, if no one has commenced any appeal or writ proceeding challenging the Final Order; or (b) the date the Final Order has been affirmed on appeal or writ review (or the appeal or writ petition has been dismissed), and the time within which to seek further review has expired. Notwithstanding the foregoing, the Settling Defendants may, within their sole discretion, declare an earlier Effective Date, namely, any date after the Final Order is entered.

9. "Excluded Claims" means, collectively, (i) all claims, including claims made pursuant to authorizations to amend the operative complaints, asserted in Marshall v. H&R Block, Inc., No. 02-L-04 (Circuit Court for the Third Judicial Circuit, Madison County, Illinois) and Soliz v. H&R Block, Inc., Cause No. 03-032-D (District Court for Kleberg County, Texas) arising from or related to the Block Defendants' "Peace of Mind" product; (ii) all claims, including claims made pursuant to authorizations to amend the operative complaints, asserted in Marshall v. H&R Block, Inc., No. 03-L-576 (Circuit Court for the Third Judicial Circuit, Madison County, Illinois); McNulty et al. v. H&R Block, Inc, No. 2002 CV 4654 (Court of Common Pleas, Lackawanna County, Pennsylvania); and Soliz v. H&R Block, Inc., Cause No. 03-199-D (District Court for Kleberg County, Texas) arising from or related to electronic filing fees; (iii) all claims by members of the Class that have been or will be released pursuant to the Agreement of Settlement in Cummins v. H&R Block, Inc. et al. (Civil Action No. 03-C-134); (iv) all claims pending in Basile v. H&R Block, Inc., Case No. 93043245 (Court of Common Pleas for Philadelphia County) as of the date of the Settlement Agreement; (v) claims under state law based solely on allegations that a tax preparer failed (A) to properly prepare a tax return or

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(B) to maintain the confidentiality of taxpayer information resulting in injury based on "stolen identity" or similar misuse of taxpayer information or theft of a RAL check; and (vi) any and all claims to enforce the terms and conditions of this Agreement.

10. "Final" means the occurrence of the Effective Date, which is the date the Agreement becomes final for all purposes.

11. "Final Order" means the Final Order of Judgment and Dismissal to be entered if the Court grants final approval to this settlement as proposed on behalf of the Class, substantially in the form of Exhibit "A."

12. "Notice" means the notice to the members of the Class, approved by the Court in the Preliminary Approval Order.

13. "Notice Costs" means the entire cost of providing the notice of the settlement to all Class Members, ordered by the Court for mail and publication. "Notice Costs" further includes all the costs associated with compiling the

database of members of the Class, preparing the database of members of the Class, printing the mailed notice, printing the claim forms, mailing the notice and claims forms by means of first class mail, and the cost of developing and maintaining a central website containing materials about the Agreement. The database to be utilized for purposes of the initial mailing of notice will be the database updated by Hilsoft Communications in February 2006.

14. "Preliminary Approval Order" means the order to be entered if the Court grants preliminary approval of this Agreement and certifies the Class for settlement purposes only, substantially in the form attached as Exhibit "B".

15. "RAL" is a Refund Anticipation Loan.

16. "Released Claims" includes any claims, Unknown Claims, rights, demands,

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obligations, actions, causes of action, suits, cross-claims, matters, issues, liens, contracts, liabilities, agreements, costs, expenses of any nature by the Plaintiff and Class Members against the Released Parties arising out of, or in connection with, or in any way related to any RAL transaction. This includes any activity engaged in or any services performed directly or indirectly in connection with any RAL, including but not limited to tax preparation, electronic filing, RAL document preparation or related services, RAL contractual commitments, RAL advertisements or RAL solicitations, RAL disclosures, money collected in connection with a RAL, RAL-related fees, RAL license fees, RAL participation interest revenue, and the RAL waiver fee, or other policies or procedures relating to any RAL made within the Class Period, whether for damages, fines, punitive damages, exemplary damages, penalties, restitution, disgorgement, or any declaratory, injunctive or any other equitable relief of any kind, whether based on any federal or state statute, regulation or common law theory (specifically including but not limited to claims for fraudulent misrepresentation or omission, state consumer protection or fraud laws, TILA, RICO, credit service organization statutes, breach of fiduciary duty, agency, loan broker, unjust enrichment and/or breach of contract). Notwithstanding the foregoing, "Released Claims" specifically excludes the "Excluded Claims" described in Article II, Section 9.

17. "Released Parties" means, collectively, the Released Beneficial Parties and the Released Block Parties (as defined below).

18. "Released Beneficial Parties" means, collectively, HSBC Finance Corporation f/k/a Household International, Inc., (on behalf of itself, Household Finance Corporation, Household Bank, f.s.b., and Beneficial National Bank), HSBC Bank USA, N.A., HSBC Taxpayer Financial Services Inc. (f/k/a Household Tax Masters Inc. and Beneficial Tax Masters

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Inc.), Beneficial Franchise Company, Inc., Beneficial Corporation, Beneficial Finance Corporation, Beneficial Management Corporation, Imperial Capital Bank (to the extent it offered RALs pursuant to its contract with HSBC Taxpayer Financial Services, Inc.), and (a) any and all of their respective past, present and future parent companies, subsidiaries, divisions, affiliates, franchisees, predecessors, successors, and assigns; (b) the respective present and former general partners, limited partners, principals, members, directors, and their attorneys, officers, employees, stockholders, owners, agents, subrogees, independent contractors (including, but not limited to, Imperial Capital Bank), insurers, reinsurers, attorneys, the representatives, heirs, executors, personal representatives, administrators, trustees, transferees and assigns of any of them; and (c) all persons or entities acting on behalf or at the direction of any of the foregoing.

19. "Released Block Parties" means, collectively, H&R Block, Inc., H&R Block Services, Inc., H&R Block Tax Services, Inc., Block Financial Corp., HRB Royalty, Inc., H&R Block Eastern Enterprise, Inc., successor to H&R Block Eastern Tax Services, Inc., all direct or indirect franchise or sub-franchise offices operating under the trade name of "H&R Block," and (a) any and all of their respective past and present parent companies, subsidiaries, divisions, affiliates, franchises, predecessors, successors, and assigns; (b) their respective present and former general partners, limited partners, principals, members, directors, and their attorneys, officers, employees, stockholders, owners, agents, insurers, reinsurers, attorneys, the representatives, heirs, executors, personal representatives, administrators, trustees, transferees and assigns of any of them; and (c) all persons or entities acting on behalf or at the direction of any of the foregoing.

20. "Unknown Claims" means all claims arising out of facts relating to any matter covered by the Released Claims, which in the future are or may be found to be other than or

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different from the facts now believed to be true, so that each person or entity so affected shall be deemed to have expressly waived all of the rights and benefits of any provision of the law, either state or federal, providing that a general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor, including without limitation Section 1542 of the California Civil Code, which reads as follows:

Section 1542. General Release: extent. A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor.

All persons or entities providing releases under this Agreement, including all Class Members, upon the Effective Date shall be deemed to have, and by operation of the Final Order shall have, waived any and all provisions, rights or benefits conferred by Section 1542 of the California Civil Code or any comparable law of any state or territory of the United States, or principle of common law, which is similar, comparable or equivalent to Section 1542 of the California Civil Code. All persons or entities providing releases under this Agreement may hereafter discover facts other than or different from those which he, she or it now knows or believes to be true with respect to the subject matter of the Released Claims, but such person or entity, upon the Effective Date, shall be deemed to have, and by operation of the Final Order in the Action shall have, fully, finally, and forever settled and released any and all such claims, known or unknown, suspected or unsuspected, contingent or non-contingent, whether or not concealed or hidden, which now exist, or heretofore have existed upon any theory of law or equity now existing or coming into existence in the future, including conduct which is negligent, intentional, with or without malice, or a breach of any duty, law or rule, without regard to the subsequent discovery

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or existence of such different or additional facts.

III. AGREEMENT FOR SETTLEMENT PURPOSES ONLY

If the Settlement does not become Final for any reason, the parties will be returned to their status immediately prior to execution of this Agreement, such that the parties will be deemed to have preserved all their rights or defenses as of such date, and the parties shall not be deemed to have waived any substantive or procedural rights of any kind that they may have with respect to

any Class Members who were not members of the merits class that was certified by the Court as of March 2004 (including, inter alia, the right to oppose or appeal any subsequent certification of any class including such additional persons for trial on the merits, the right to assert affirmative defenses, and the right to move to compel arbitration for any claims that might be asserted by any Class Representative, plaintiff or other Class Member). The Parties shall then immediately request a status conference to set a trial date and deadlines to complete the Court's Pretrial Order procedure.

IV. SETTLEMENT CONSIDERATION

1. ECONOMIC RELIEF.

(a) The Settling Defendants will contribute a total of \$39 million in cash (the "Settlement Fund") to be used for purposes of making payments to Class Members, paying for all attorneys' fees and costs to Class Counsel, covering incentive awards to Plaintiff, and covering all costs of Notice and Administration of the Settlement. The Settling Defendants will not be required to make any additional payments to or on behalf of Class Members or their counsel for any purpose whatsoever, except as expressly set forth herein, subject to paragraph (d) below.

(b) At least \$30 million of the Settlement Fund will be used to make payments

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to members of the Class, with the remainder of the Settlement Fund available for attorneys' fees and costs to Class Counsel, and the costs of Notice and Administration of the Settlement.

(c) There will be no reversion to the Settling Defendants for any of these amounts. However, in the event that there are any residual funds that remain after distribution of all required payments to members of the Class who submit timely, proper and undisputed Valid Claim Forms, based on uncashed checks or other circumstances, the disposition of any such funds to a third party will be mutually agreed upon by the Parties and then submitted for approval by the Court, provided, however, that if the Parties are unable to agree, the disposition of such funds to a third party will be determined by the Court. However, no Party, class member or their counsel may be awarded any amounts from such residual funds, and no Party, class member or their counsel shall apply to the Court seeking any portion of the residual funds for any purpose whatsoever including, but not limited to, payment of any counsel fees, expenses, or costs incurred in the litigation.

(d) In the event that the costs of Notice and Administration of the Settlement exceed \$2 million, the Settling Defendants agree to contribute up to a maximum of \$500,000 in additional funds to the Settlement Fund toward such Notice Costs and Administration Costs. Class Counsel, out of fees and costs awarded by the Court, shall be responsible for any additional Notice or Administration Costs that exceed \$2.5 million.

(e) The Settling Defendants will pay \$39 million ("Settlement Fund") into an account held in escrow at HSBC Bank USA, N.A. within 10 days after preliminary approval of this Settlement by the Court. The terms of such escrow account are set forth in the "Escrow Agreement" attached hereto as Exhibit "C." Interest and earnings accruing on the Settlement Fund for a period of up to the first 6 months will be added to the Settlement Fund, provided that

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(i) if the Settlement does not become Final, all such interest shall accrue

solely for the benefit of the Settling Defendants, and (ii) any interest and earnings accruing after such 6 month period will accrue solely for the benefit of the Settling Defendants. The Settlement Fund shall be responsible for any taxes due on the interest and earnings realized for up to 6 months and Settling Defendants shall be responsible for any taxes due on the interest and earnings realized after such 6 month period.

(f) Each Class Member who submits (or is deemed to have submitted) a timely, proper and undisputed Valid Claim Form will be entitled to a payment for his or her claim from the Settlement Fund for Class Members for each RAL that was obtained by or through Settling Defendants or their Affiliates during the Class Period, on a pro-rata basis (based on each Class Member's total claim for all RALs previously obtained during the Class Period), no less than \$15.00 per RAL and up to a maximum per-RAL payment of \$125 in cash. The period for submission of such claims will remain open for a period of 60 days following the entry of a Final Order of the Court finally approving the Settlement.

(g) In the event that a RAL was issued to joint borrowers, such couple or joint interest shall be treated as one Class Member for all purposes of this Agreement. If a Valid Claim Form is submitted with respect to such a RAL and the joint borrowers are contesting the entitlement of the other to the settlement consideration, each such joint borrower will be entitled to one half of the settlement consideration with respect to such RAL. Class Members who are joint RAL borrowers waive any and all claims against the Settlement Administrator and Defendants with regard to payments made to joint RAL borrowers.

(h) No payments to Class members will be made until 30 days after the later of the following (i) the Settlement becomes Final; or (ii) the deadline for submitting claim forms.

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In the event that the Settlement does not become Final for any reason, the remaining Settlement Fund amounts, together with all accrued interest, and less any accrued notice or administration costs outstanding up to \$2.5 million, shall promptly be returned to the Settling Defendants by either transfer of the ownership of the account or wire transfer.

V. RELEASE BY CLASS MEMBERS

1. In accordance with the provisions of the Final Order, for good and sufficient consideration, the receipt of which is hereby acknowledged, upon the Effective Date Plaintiff and each Class Member shall be deemed to have, and by operation of the Final Order shall have, fully, finally and forever released, relinquished and discharged all Released Claims against the Released Parties.

2. In accordance with the provisions of the Final Order, for good and sufficient consideration, the receipt of which is hereby acknowledged, upon the Effective Date each of the Released Parties and all signatories to this Agreement shall be deemed to have, and by operation of the Final Order shall have, fully, finally and forever released, relinquished and discharged Plaintiff, Class Counsel, and the Settling Defendants and their counsel in this Action from any claims (including Unknown Claims) for abuse of process, libel or malicious prosecution arising out of, relating to, or in connection with the institution, prosecution, defense, assertion, or resolution of the Action, including any right under any statute or federal law to seek counsel fees and costs.

VI. EXCLUSIONS FROM AND OBJECTIONS TO SETTLEMENT

1. The "Opt-Out Date" will be a date set by the Court and identified in the Notice.

2. Each Class Member who wishes to be excluded from the Settlement must mail or otherwise deliver to the Administrator an appropriate written request for exclusion, including his

or her name, address, telephone number and Social Security number, that is personally signed by the Class Member, which request must be postmarked on or before the Opt-Out Date and actually received by the Administrator. No Class Member, or any person acting on behalf of or in concert or in participation with that Class Member, may request exclusion of any other Class Member from the Class. The original requests for exclusion shall be filed with the Court by the Administrator not later than 30 days after the Opt-Out Date. The filing shall redact the social security number of the person requesting exclusion, except for the last three digits. Copies of requests for exclusion will be provided by the Administrator to Class Counsel and counsel for the Settling Defendants not later than five days after the Opt-Out Date. If this Agreement is approved, any and all persons within the Class who have not submitted a timely, valid and proper written request for exclusion from the Settlement will be bound by the releases and other terms and conditions set forth herein and all proceedings, orders and judgments in the Action, even if those persons have previously initiated or subsequently initiate individual litigation or other proceedings against the Settling Defendants (or any of them) relating to the claims released pursuant to or covered by the terms of this Settlement.

3. Any Class Member who has not filed a timely, valid and proper written request for exclusion and who wishes to object to the fairness, reasonableness or adequacy of this Agreement or the settlement, or to any award of attorneys' fees and expenses, must serve upon Co-Lead Class Counsel and counsel for the Settling Defendants (by mail, hand or by facsimile transmission) and filed with the Court no later than 30 days prior to the fairness hearing or as the Court may otherwise direct, a written statement, signed by him or his duly authorized agent, including his name and social security number, setting forth his/her objections, as well as the specific reason(s), if any, for each objections, including any legal support the Class Member

wishes to bring to the Court's attention and a description of any evidence the Class Member wishes to introduce in support of the objection. Class Members may so object either on their own or through an attorney hired at their own expense who files an appearance on their behalf.

VII. THE FINAL JUDGMENT AND ORDERS OF DISMISSAL

1. If, after the Final Approval Hearing, the proposed Settlement is approved by the Court with respect to the Class, Class Counsel shall promptly file and request entry of a Final Order, substantially in the form of Exhibit "A," by the Court:

(a) Approving the Agreement and judging its terms to be fair, reasonable, adequate and in the best interests of the Class, directing consummation of its terms, and reserving continuing jurisdiction to implement, enforce, administer, effectuate, interpret and monitor compliance with the provisions of the Agreement and the Final Order;

(b) Dismissing the Action and the Released Claims, with prejudice and without costs (except as otherwise provided herein), and releasing both the Released Claims and all of the claims described in Article II, Sections 16 against the Released Parties; and

(c) Permanently barring and enjoining Plaintiff and Class Members from asserting, commencing, prosecuting or continuing any of the Released Claims or any of the claims described in Article II, Section 16 against the Released Parties.

2. Within 10 days of the Effective Date Plaintiff shall dismiss her claims pending in (i) the Eastern District of New York in the action entitled Affatato v. Beneficial, No. CV 96-5376 (NG) (ASC), and (ii) the Supreme Court of New York in the action entitled Carnegie v. H&R Block, Inc. et al., No. 96/606129, in each case on behalf of herself, any co-plaintiff, and the putative class she purports to represent, with prejudice. Pursuant to the terms of the term sheet, the Beneficial Defendants have requested that Plaintiff dismiss her claim in the Affatato case

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promptly after preliminary approval of this settlement, and Plaintiff's counsel has agreed to consider this request.

VIII. NOTICE AND PRELIMINARY APPROVAL OF SETTLEMENT

1. Class Counsel will submit preliminary approval papers for the settlement, including a Motion for Preliminary Approval and the proposed Preliminary Approval Order, together with a proposed form of mailed summary Notice, Detailed Notice and a publication Summary Notice substantially in the form of Exhibits "D," "E," and "F" (the "Notice", "Detailed Notice" and "Summary Notice"), the proposed form of the Final Order, and the executed Agreement, within 7 days of the execution of this Agreement.

2. Plaintiff will submit to the Court the proposed Preliminary Approval Order which will, among other things, set a date for a Final Approval Hearing, approve the form of the Notice and Summary Notice, find that the method of notice selected constitutes the best notice to all persons within the definition of the Class that is practicable under the circumstances, and find that the form and method of notice comply fully with applicable law and the United States Constitution.

3. The Plaintiff proposes the following Notice regime:

(a) The Summary Notice, along with a Claim Form, will be mailed to the last known address of all Class Members, by first class mail, and any mail returned with a forwarding address will be promptly re-mailed to such address;

(b) The Administrator and each Class Counsel that maintains a website will provide a link on its website to a central site maintained by the Administrator to obtain downloadable and printable copies of this Agreement, the Notice and the Claim Form; and

(c) Publication notice of the Settlement Agreement will be provided as

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ordered by the Court.

4. The Notice Costs and Administration Costs will be paid out of the cash contributed to the Settlement Fund, as set forth in Article IV, Section 1(a) and (d) by the Settling Defendants, up to a maximum of \$2.5 million, with any additional amounts required for Notice Costs to be contributed by Class Counsel pursuant to Article IV, Section 1(d).

5. Class Counsel designates Poorman-Douglas Corporation to be the Administrator.

6. The Administrator will file with the Court and serve upon Class Counsel and Settling Defendants' counsel no later than ten (10) days prior to the Final Approval Hearing an affidavit or declaration stating that notice has been completed in accordance with the terms of the Preliminary Approval Order.

7. The Final Approval Hearing will be held at a date and time to be set by the Court after mailing of the notice and the passing of the opt-out date. At the Final Approval Hearing, the Court will consider and determine whether the provisions of this Agreement should be approved, whether the Settlement should be finally approved as fair, reasonable and adequate, whether any objections to the Settlement should be overruled, and whether a Final Order approving the Settlement and dismissing any of the actions should be entered.

IX. PAYMENT OF ATTORNEYS' FEES AND REIMBURSEMENT OF EXPENSES TO CLASS COUNSEL

1. Co-Lead Class Counsel will submit a fee petition for attorneys' fees, costs and expenses, on behalf of all Class Counsel, with all such fees and costs to be paid from the Settlement Fund and any accrued interest on such funds as provided in Article IV, Section 1(e), provided that at least \$30 million of the Settlement Fund is used to make payments to the class,

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and attorneys' fees, costs and expenses will be available only from the remaining portion of the Settlement Fund including all accrued interest earned on the Settlement Fund pursuant to Article IV, Section 1(c). The Settling Defendants agree not to oppose in Court or any other forum such petition by Class Counsel for an award of attorneys' fees and costs to be paid from the Settlement Fund, provided that the petition conforms with this paragraph and Section IV of this Agreement.

2. Entry of a Final Order is not conditioned upon an award of the attorneys' fees and costs sought by Class Counsel. Subject to the Court's approval, such attorneys' fees and costs shall be paid to Class Counsel within 5 days after the Settlement becomes Final.

3. Class Counsel will apply to the Court for an award of incentive fees for Plaintiff in an amount not to exceed \$7,500 to be paid out of the Settlement Fund in recognition of her services in pursuing this case. Plaintiff will not be entitled to receive any additional payments other than her pro rata payment under the Agreement as specified in Article IV, Section 1(f) above.

4. The Settling Defendants shall not be liable for any additional attorneys' fees or expenses of Plaintiff or any persons within the Class, or other plaintiffs' counsel in connection with this Action. The Settling Defendants will be entitled to oppose any such fee application.

5. Class Counsel agree that they will not seek any additional fees or costs other than as provided in this Agreement from any of the Settling Defendants in connection with the settlement of the Action.

X. CLAIMS (CLAIMS PROCESS)

1. The Administrator will mail the appropriate claim form with respect to the relief set forth in Article IV Section 1(f) above substantially in the form attached as Exhibit "G"

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("Claim Form"), to all persons within the Class together with the Summary Notice. If a Claim Form is thereafter requested by a class member, the Claim Form sent shall be in the form attached to the mailed notice as Exhibit "D." Pursuant to this Agreement, certain monetary benefits are available to Class Members only upon submission to the Administrator of a Valid Claim Form. A "Valid Claim Form" is a Claim Form that contains some or all of the following information as required by the form itself: (1) is signed by the Class Member,

or signed by the heirs or estate of a deceased Class Member; (2) provides all the information required by the Claim Form, including: (i) the Social Security Numbers that they have used at any time; and (ii) their current mailing address; (3) is postmarked and received by the Administrator no later than 60 days after entry of a Final Order; (4) is affirmed as true by the claimant who shall also state (i) that he/she is the person who applied for and received a RAL, (ii) the name(s) under which his/her RAL was approved, and (iii) his/her current name to be stated on any settlement check; and (5) is determined by the Administrator to be complete and in accordance with the requirements of this Agreement.

2. Potential claimants who previously submitted a timely, proper and undisputed proof of claim form in the settlement in the Zawikowski Action that was not ultimately approved by the Court, and whose Notice is not returned to the Administrator as undeliverable, will not be required to submit a further Claim Form in order to receive a settlement payment as described in Article IV, Section 1(f). However, such potential claimants shall only receive a settlement payment for RALs obtained in 1994 (between April 8 and December 31), 1995, or 1996.

3. If a RAL was issued to joint borrowers, only one Claim Form need be submitted for such RAL, with the corresponding Social Security Number for each joint borrower.

4. No payments to Class Members will be made until 30 days after the later of the

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following (i) the Settlement becomes Final; or (ii) the deadline for submitting Claim Forms.

5. Within 5 days after the claim submission deadline, the Administrator will provide Class Counsel and counsel for the Settling Defendants with a list identifying: (1) the number of Claim Forms submitted; (2) the number of RALs covered; and (3) the number of Claim Forms that were denied ("Denied Claims").

6. Promptly after receiving a Claim Form, the Administrator will evaluate the claim and, for Denied Claims, will mail to the Class Member, with copies to Class Counsel and counsel for the Settling Defendants, a notice stating that the claim was denied and the reasons for the denial, and advising the Class Member how he or she might contest denial or remedy any deficiency in the filing. For issues that are not administrative in nature, the Administrator may advise the Class Member to contact Class Counsel with any questions about his or her Denied Claim.

7. A Class Member or Class Counsel may submit to the Administrator a request to reconsider the claim denial within 30 days following the date of such denial. Such request must be accompanied by documentation to support the claim and served on Co-Lead Class Counsel and counsel for the Settling Defendants.

8. Co-Lead Class Counsel and counsel for the Settling Defendants will meet not later than 30 days after the Effective Date to confer regarding all Denied Claims for which requests for reconsideration have been denied by the Administrator. Co-Lead Class Counsel shall have full settlement authority to resolve such Denied Claims. If counsel for the Parties cannot then agree as to the treatment of a submitted Claim Form, the matter will be submitted to the Mediator for final and binding determination, with costs of resolution to be shared equally by the Class, from the Settlement Fund, and the Settling Defendants. Claims that are to be submitted

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to the Mediator for resolution will be submitted together in bulk no later than 30 days after attempts at informal resolution of all Denied Claims have been completed.

9. For purposes of this Section, the Mediator of claims disputes will be Thomas Meites unless he is unwilling or unable to serve. In such event, the Parties will mutually agree on an alternate mediator.

10. This Section sets forth the exclusive procedure for determining the validity of claims, and no Class Member may challenge the denial of any such claim except through this procedure.

XI. TERMINATION OF THE AGREEMENT

If the Settlement and this Agreement, as a whole, is not approved by the Court or does not receive final approval after review by any court of competent jurisdiction for any reason, or is terminated in accordance with its terms for any other reason, the Parties will be returned to their status immediately prior to execution of the Agreement as if this Agreement had never been made, and (i) the Parties will be relieved from any orders or stipulations made in connection with this Agreement, and (ii) the Action will proceed with trial on the merits with the merits class previously certified by the Court as of March 29, 2004, as modified on January 23, 2006 and February 22, 2006, as set forth in Article II, Section 4. Accordingly, upon any such termination for any reason (i) the Parties will be deemed to have preserved all their substantive or procedural rights or defenses with respect to the Action as of the date of execution of this Agreement, and (ii) the Parties shall not be deemed to have waived any substantive or procedural rights or defenses of any kind that they may have with respect to any persons within the Class who were not members of the merits class that was certified by the Court as of March 29, 2004 (including, inter alia, the right to oppose or appeal any subsequent certification of any class including such

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additional persons for trial on the merits in the Action, the right to assert affirmative defenses, and the right to compel arbitration for any claims that might be asserted by any such additional persons); provided, that the terms of this Article XI shall survive any termination of the Settlement or this Agreement and shall remain binding on the Parties and effective in all respects regardless of the reasons for such termination.

The Settling Defendants, and each of them individually, will also have the right, in their sole discretion, to withdraw from the Settlement and this Agreement upon written notice to the other Parties if the Court determines to modify this Agreement (including the form or terms of any document referenced or described herein or attached hereto as an Appendix or Exhibit hereto) in any material respect. Withdrawal by any one of the Settling Defendants shall cause this Settlement to terminate, and the Parties will be returned to their respective status immediately prior to execution of the Agreement, as set forth in the preceding paragraph. For purposes of this Agreement, a "material" modification of this Agreement shall specifically include but not be limited to any modification in any respect to (i) the definition of the Class, (ii) the persons excluded from the Class, and/or (iii) the scope of the release and the Released Claims or the Released Parties.

XIII. NO ADMISSION OF LIABILITY

Neither this Agreement nor any drafts hereof nor any documents relating to the settlement set forth herein constitutes an admission of liability or of any fact by the Plaintiff or the Settling Defendants. The Parties agree that the foregoing documents:

(a) Will not be offered or received against any of the Released Parties as evidence of, or be construed as or deemed to be evidence of, any

admission or concession by any

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of the Released Parties of (i) the truth or relevance of any fact alleged by Plaintiff, (ii) the existence of or proper scope and definition of any class alleged by Plaintiff, (iii) the propriety of class certification on the merits if the Action were to be litigated rather than settled, or (iv) the validity of any claim or the deficiency of any defense that has been or could have been asserted in the Action or in any other litigation;

(b) Will not be offered as or received against any of the Released Parties as evidence of, or construed as or deemed to be evidence of, any admission or concession of any liability, negligence, fault or wrongdoing, or in any way referred to for any other reason as against any of the parties to this Agreement, in any other civil, criminal or administrative action or proceeding, other than such proceedings as may be necessary to effectuate the provisions of this Agreement; provided, however, that if this Agreement is approved by the Court, the Released Parties may refer to it to effectuate the liability protection granted them hereunder; and

(c) Will not be offered or received as an admission or concession that the consideration to be given to Class Members hereunder represents the amount which could be or would have been recovered by any such persons after trial.

XIII. CONTINUING JURISDICTION

1. The United States District Court for the Northern District of Illinois, Eastern Division, will have continuing jurisdiction over the Action for the purpose of implementing the Settlement until the Action and all related matters are fully resolved, and for enforcement of the Settlement, the Agreement and the Final Order thereafter. The Court will resolve any dispute regarding the Parties' obligations pursuant to this Agreement and/or interpretation of the terms of this Agreement or Final Order. Notwithstanding the foregoing, the procedure set forth in Article X above shall be the exclusive procedure for determining the validity of claims, and no Class

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Member may challenge any claim denial except through the procedure set forth in Article X, Sections 6 through 10.

XIV. JOINT PRESS RELEASE

1. The Parties will agree upon the form of any public statement to the press or governmental agencies concerning the settlement, the Agreement and the proceedings leading to its ultimate approval or disapproval by the Court (whether issued by mail, website posting or other means of communication). The Parties and their counsel shall be entitled to respond to inquiries by the press or otherwise, but except as provided in the preceding sentence, shall not (i) initiate any public announcement, including a press release, or other communications with the press regarding the Settlement, (ii) make any public comments that would undermine the joint press release or the Settlement, or (iii) make any disparaging public statements about any other Party or counsel for a Party prior to the Effective Date. Nothing in this Paragraph shall prohibit Class Counsel from providing legal advice to individual Class Members.

XV. MISCELLANEOUS PROVISIONS

1. ENTIRE AGREEMENT. This Agreement and its exhibits constitute the entire agreement and understanding between and among the Parties with respect to settlement, and supersedes any and all prior negotiations and agreements or

understandings (oral or written) with respect to the subject matter hereof, including the settlement term sheet dated March 21, 2006.

2. NEUTRAL INTERPRETATION. This Agreement shall not be construed more strictly against one Party than another merely because it may have been prepared by counsel for one of the Parties, it being recognized that, because of the arms-length negotiations and mediation resulting in the Agreement, all parties have contributed substantially and materially to the preparation of the Agreement.

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3. CHOICE OF LAW. This Agreement will be governed by federal law and the internal laws of Illinois, without regard to its choice of law principles.

4. CHOICE OF FORUM. The forum selected by the Parties for implementation and enforcement of the Settlement shall be Illinois, in the United States District Court for the Northern District of Illinois, Eastern Division.

5. MODIFICATIONS OR AMENDMENTS. This Agreement may not be modified or amended except by a writing signed by all Parties and their respective counsel and the subsequent approval of the Court.

6. COUNTERPARTS. This Agreement may be executed in counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one and the same instrument.

7. ADDITIONAL ACTS TO EFFECTUATE THE AGREEMENT. The Parties shall execute all documents and perform all acts necessary and proper to effectuate the terms of this Agreement and to obtain the benefits of the Agreement.

8. COMPETENCY; INDEPENDENT COUNSEL. Each Party to this Agreement represents and warrants that he, she or it is competent to enter into the Agreement and in doing so is acting upon his, her or its independent judgment and upon the advice of his, her or its own counsel and not in reliance upon any warranty or representation, express or implied, of any nature or kind by any other Party, other than the terms expressly set forth in this Agreement.

XVI. [TO BE FILED UNDER SEAL]

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IN WITNESS WHEREOF, the undersigned Parties hereto have caused this Agreement to be duly executed on the date first written above:

LEVY ANGSTREICH FINNEY BALDANTE,
RUBENSTEIN & COREN, P.C.

KIRBY McINERNEY & SQUIRE, LLP

By: /s/ Steven E. Angstreich / RLF

By: /s/ Peter Linden / RLF

Steven E. Angstreich, Esq.
Co-Class Counsel

Peter Linden, Esq.
Co-Lead Class Counsel

FUTTERMAN & HOWARD, CHTD.

MUCH SHELIST FREED DENENBERG
AMENT & RUBENSTEIN, P.C.

By: /s/ Ronald L. Futterman

By: /s/ Michael B. Hyman / RLF

Ronald L. Futterman, Esq.
Co-Liaison Class Counsel

Michael B. Hyman, Esq.
Co-Liaison Class Counsel

H&R BLOCK, INC., H&R BLOCK
SERVICES, INC., H&R BLOCK TAX
SERVICES, INC., BLOCK FINANCIAL
CORP., HRB ROYALTY, INC., H&R
BLOCK EASTERN ENTERPRISE, INC.,
successor to H&R BLOCK EASTERN TAX
SERVICES, INC.

By:

JENNER & BLOCK LLP
Counsel for the Block Defendants

HSBC FINANCE CORPORATION F/K/A
HOUSEHOLD INTERNATIONAL, INC.,
(ON BEHALF OF ITSELF, HOUSEHOLD
FINANCE CORPORATION,
HOUSEHOLD BANK, F.S.B. AND
BENEFICIAL NATIONAL BANK), HSBC
TAXPAYER FINANCIAL SERVICES
INC. (F/K/A HOUSEHOLD TAX
MASTERS INC. AND BENEFICIAL TAX
MASTERS, INC.), AND BENEFICIAL
FRANCHISE COMPANY, INC.

By: /s/ Robert Scarborough

on behalf of the Benefit Defendants
Counsel for the Beneficial Defendants

H&R BLOCK, INC., H&R BLOCK SERVICES,
INC., H&R BLOCK TAX SERVICES, INC.,
BLOCK FINANCIAL CORP., HRB ROYALTY,
INC., H&R BLOCK EASTERN ENTERPRISE,
INC., successor to H&R BLOCK EASTERN
TAX SERVICES, INC.

By: /s/ JENNER & BLOCK LLP

JENNER & BLOCK LLP
Counsel for the Block Defendants

HSBC FINANCE CORPORATION F/K/A
HOUSEHOLD INTERNATIONAL, INC.,
(ON BEHALF OF ITSELF, HOUSEHOLD
FINANCE CORPORATION, HOUSEHOLD BANK,
F.S.B. AND BENEFICIAL NATIONAL BANK),
HSBC TAXPAYER FINANCIAL SERVICES INC.
(F/K/A HOUSEHOLD TAX MASTERS INC. AND
BENEFICIAL TAX MASTERS, INC.), AND
BENEFICIAL FRANCHISE COMPANY, INC.

By:

SIDLEY AUSTIN LLP
Counsel for the Beneficial Defendants

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EXHIBIT "A"

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

LYNNE A. CARNEGIE, On Behalf of)	
Herself and All Others Similarly Situated,)	
)	
Plaintiff,)	
)	
vs.)	
)	
HOUSEHOLD INTERNATIONAL, INC.,)	
HOUSEHOLD BANK, f.s.b., successor in)	No. 98 C 2178
interest to BENEFICIAL NATIONAL)	
BANK, HOUSEHOLD TAX MASTERS,)	Judge Elaine E. Bucklo
INC., formerly known as BENEFICIAL)	
TAX MASTERS, INC, BENEFICIAL)	
FRANCHISE COMPANY, INC., H&R)	
BLOCK, INC., H&R BLOCK SERVICES,)	
INC., H&R BLOCK TAX SERVICES,)	
INC., H&R BLOCK EASTERN TAX)	
SERVICES, INC., BLOCK FINANCIAL)	
CORP. and HRB ROYALTY, INC.,)	
)	
Defendants.)	

FINAL JUDGMENT AND ORDER OF DISMISSAL

This Court, having considered the Plaintiff's Motion for Final Approval (the "Motion") of the settlement ("Settlement") with HSBC Finance Corporation f/k/a Household International, Inc. (on behalf of itself, Household Finance Corporation, Household Bank, f.s.b. and Beneficial National Bank), HSBC Taxpayer Financial Services, Inc. (f/k/a Household Tax Masters Inc. and Beneficial Tax Masters Inc.), and Beneficial Franchise Company, Inc. (collectively, the "Beneficial Defendants"), and H&R Block, Inc., H&R Block Services, Inc., H&R Block Tax Services, Inc., Block Financial Corp., HRB Royalty, Inc., H&R Block Eastern Enterprises, Inc., successor to H&R Block Eastern Tax Services, Inc. (collectively, the "Block Defendants"), having held a fairness hearing on _____, 2006,

having considered all of the submissions and arguments with respect to the Motion, the Court finds that:

1. This Action was previously certified by the Court as a class action against the Beneficial Defendants and the Block Defendants on behalf of all persons in the United States who received a Refund Anticipation Loan ("RAL") (sometimes referred to as "Rapid Refund") from Beneficial National Bank through any H&R Block office anytime between April 8, 1994 through December 31, 1996.

2. Excluded from the Class are the following:

(a) Anyone, who for the first time, received a RAL through an H&R Block office from Beneficial after December 31, 1996;

(b) Anyone who received a RAL from H&R Block, Beneficial or Household Bank between April 8, 1994 and December 31, 1996, and also received a RAL in 1997, 1998, or 1999;

(c) Anyone who asked to be excluded from the Zawikowski v. Beneficial National Bank case;

(d) Customers of Jackson Hewitt, Inc. who only received a RAL from Beneficial National Bank from December 11, 1992 through December 31, 1995;

(e) Anyone who was a member of the Peterson v. H&R Block Tax Services, Inc. (Cook County Circuit Court No. 96 C 6647) class action settlement; and

(f) Individuals who submit timely requests for exclusion from the Class.

3. Notice to the Class has been provided in accordance with the Court's Preliminary Approval Order, and such Notice by first-class mail and publication has been given in an adequate and sufficient manner; constitutes the best notice practicable under the circumstances; and satisfies all requirements of Rule 23(e) and due process.

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4. The Settlement Agreement was arrived at as a result of arms-length negotiations conducted in good faith by counsel for the parties, with the assistance of an experienced mediator, and is supported by the Class Representative.

5. The Action presents issues as to liability and damages as to which there are substantial grounds for differences of opinion.

6. The Court finds that the settlement as set forth in the Settlement Agreement is fair, reasonable and adequate in light of the complexity, expense and duration of litigation and the risks involved in establishing liability, damages and in maintaining the class action through trial and appeal

7 Payment of cash as provided under the Settlement Agreement constitutes fair value given in exchange for the release of the Released Claims against the Released Parties, as those terms are defined below. The Court finds that the consideration to be paid to Class Members, consisting of cash payments, is reasonable considering the facts and circumstances of the RAL transactions at issue, the numerous types of claims and affirmative defenses asserted in the Action and other RAL litigation over many years, and the potential risks and likelihood of success of alternatively pursuing trial on the merits.

8 The persons listed on Exhibit _____ hereto are found to have validly excluded themselves from the Settlement in accordance with the provisions of the Preliminary Approval Order.

9 The parties and each Class Member have irrevocably submitted to the exclusive jurisdiction of this Court for any suit, action, proceeding, or relating in any way to any dispute arising out of, the Settlement Agreement.

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10. It is in the best interests of the parties and the Class Members and consistent with principles of judicial economy that any dispute between any Class Member (including any dispute as to whether any person is a Class Member)

and any Released Party which in any way relates to the applicability or scope of the Settlement Agreement or this Final Judgment and Order of Dismissal should be presented exclusively to this Court for resolution by this Court.

IT IS THEREFORE ORDERED, ADJUDGED AND DECREED THAT:

1. The Settlement Agreement submitted by the parties is finally approved as fair, reasonable and adequate and in the best interests of the Class and the parties are directed to consummate the Settlement Agreement in accordance with its terms. The parties and each person within the definition of the Class are hereby bound by the terms and conditions of the Settlement Agreement.

2. The Action is hereby dismissed, with prejudice and without costs. This Judgment has been entered without any admission by the Beneficial Defendants or the H&R Block Defendants as to the merits of any of the allegations in the Second Amended Class Action Complaint and shall not constitute a finding as to any obligation of either the Beneficial Defendants or the H&R Block Defendants to take any actions agreed to be done or avoided as necessary in order to bring them into compliance with law.

3 For purposes of this Final Judgment and Order of Dismissal:

(a) "Released Claims" includes any claims, Unknown Claims, (1) rights, demands, obligations, actions, causes of action, suits, cross-claims, matters, issues, liens,

(1) "Unknown Claims" means all claims arising out of facts relating to any matter covered by the Released Claims, which in the future are or may be found to be other than or different from the facts now believed to be true, so that each person or entity so affected shall be deemed to have expressly waived all of the rights and benefits of any provision of the law, either state or federal, providing that a general release does not extend to claims which the creditor does not know or

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contracts, liabilities, agreements, costs, expenses of any nature by the Plaintiff and Class Members against the Released Parties arising out of, or in connection with, or in any way related to any RAL transaction. This includes any activity engaged in or any services performed directly or indirectly in connection with any RAL, including but not limited to tax preparation, electronic filing, RAL document preparation or related services, RAL contractual commitments, RAL advertisements or RAL solicitations, RAL disclosures, money collected in connection with a RAL, RAL-related fees, RAL license fees, RAL participation interest revenue, and the RAL waiver fee, or other policies or procedures relating to any RAL made within the Class Period, whether for damages, fines, punitive damages, exemplary damages, penalties, restitution, disgorgement, or any declaratory, injunctive or any other equitable relief of any kind, whether

_____ suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor, including without limitation Section 1542 of the California Civil Code, which reads as follows:

Section 1542. General Release: extent. A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor.

All persons or entities providing releases under this Agreement, including all Class Members, upon the Effective Date shall be deemed to have, and by operation of the Final Order shall have, waived any and all provisions, rights or benefits conferred by Section 1542 of the California Civil Code or any comparable law of any state or territory of the United States, or principle of common law, which

is similar, comparable or equivalent to Section 1542 of the California Civil Code, All persons or entities providing releases under this Agreement may hereafter discover facts other than or different from those which he, she or it now knows or believes to be true with respect to the subject matter of the Released Claims, but such person or entity, upon the Effective Date, shall be deemed to have, and by operation of the Final Order in the Action shall have, fully, finally, and forever settled and released any and all such claims, known or unknown, suspected or unsuspected, contingent or non-contingent, whether or not concealed or hidden, which now exist, or heretofore have existed upon any theory of law or equity now existing or coming into existence in the future, including conduct which is negligent, intentional, with or without malice, or a breach of any duty, law or rule, without regard to the subsequent discovery or existence of such different or additional facts.

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based on any federal or state statute, regulation or common law theory (specifically including but not limited to claims for fraudulent misrepresentation or omission, state consumer protection or fraud laws, TILA, RICO, credit service organization statutes, breach of fiduciary duty, agency, loan broker, unjust enrichment and/or breach of contract). Notwithstanding the foregoing, "Released Claims" specifically excludes the "Excluded Claims" described below in paragraph 5(c).

(b) "Released Parties" means, collectively, the Released Beneficial Parties and the Released Block Parties (as defined below).

i. "Released Beneficial Parties" means, collectively, HSBC Finance Corporation f/k/a Household International, Inc., (on behalf of itself, Household Finance Corporation, Household Bank, f.s.b., and Beneficial National Bank), HSBC Bank USA, N.A., HSBC Taxpayer Financial Services Inc. (f/k/a Household Tax Masters Inc. and Beneficial Tax Masters Inc.), Beneficial Franchise Company, Inc., Beneficial Corporation, Beneficial Finance Corporation, Beneficial Management Corporation, Imperial Capital Bank (to the extent it offered RALs pursuant to its contract with HSBC Taxpayer Financial Services, Inc.), and: (a) any and all of their respective past, present and future parent companies, subsidiaries, divisions, affiliates, franchisees, predecessors, successors, and assigns; (b) the respective present and former general partners, limited partners, principals, members, directors, and their attorneys, officers, employees, stockholders, owners, agents, subrogees, independent contractors (including, but not limited to, Imperial Capital Bank), insurers, reinsurers, attorneys, the representatives, heirs, executors, personal representatives, administrators, trustees, transferees and assigns of any of them; and (c) all persons or entities acting on behalf or at the direction of any of the foregoing.

ii. "Released Block Parties" means, collectively, H&R Block, Inc., H&R Block Services, Inc., H&R Block Tax Services, Inc., Block Financial Corp., H&R Royalty, Inc., H&R Block Eastern Enterprise, Inc., successor to H&R Block Eastern Tax Services, Inc., all direct or indirect franchise or sub-franchise offices operating under the trade name of "H&R Block," and (a) any and all of their respective past and present parent companies, subsidiaries, divisions, affiliates, franchises, predecessors, successors, and assigns; (b) their respective present and

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former general partners, limited partners, principals, members, directors, and their attorneys, officers, employees, stockholders, owners, agents, insurers, reinsurers, attorneys, the representatives, heirs, executors, personal representatives, administrators, trustees, transferees and assigns of any of them; and (c) all persons or entities acting on behalf or at the direction of any of the foregoing.

(c) "Excluded Claims" means, collectively, (i) all claims, including claims made pursuant to authorizations to amend the operative complaints, asserted in *Marshall v. H&R Block, Inc.*, No. 02-L-04 (Circuit Court for the Third Judicial Circuit, Madison County, Illinois) and *Soliz v. H&R Block, Inc.*, Cause No. 03-032-D (District Court for Kleberg County, Texas) arising from or related to the Block Defendants' "Peace of Mind" product; (ii) all claims, including claims made pursuant to authorizations to amend the operative complaints, asserted in *Marshall v. H&R Block, Inc.*, No. 03-L-576 (Circuit Court for the Third Judicial Circuit, Madison County, Illinois); *McNulty et al. v. H&R Block, Inc.*, No. 2002 CV 4654 (Court of Common Pleas, Lackawanna County, Pennsylvania); and *Soliz v. H&R Block, Inc.*, Cause No. 03-199-D (District Court for Kleberg County, Texas) arising from or related to electronic filing fees; (iii) all claims by members of the Class that have been or will be released pursuant to the Agreement of Settlement in *Cummins v. H&R Block, Inc. et al.* (Civil Action No. 03-C-134); (iv) all claims pending in *Basile v. H&R Block, Inc.*, Case No. 93043245 (Court of Common Pleas for Philadelphia County) as of the date of the Settlement Agreement; (v) claims under state law based solely on allegations that a tax preparer failed (A) to properly prepare a tax return or (B) to maintain the confidentiality of taxpayer information resulting in injury based on "stolen identity" or similar misuse of taxpayer information or theft of a RAL check; and (vi) any and all claims to enforce the terms and conditions of this Agreement.

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4. The Released Claims are hereby finally compromised, settled, released, discharged and dismissed with prejudice against the Released Parties by virtue of the proceedings herein and this Final Judgment and Order of Dismissal.

5. The Action is dismissed with prejudice and without costs.

6. Class Members and their successors and assigns are hereby permanently barred and enjoined from instituting, commencing, prosecuting or continuing to prosecute, either directly or indirectly, any Released Claim against any of the Released Parties in any forum.

7. The Court awards _____ dollars as attorneys' fees to Co-Lead Class Counsel to be distributed in their discretion thereafter between and among all Class Counsel in accordance with their respective contributions to this action and incentive fee awards in the amount of \$7,500.00 to Lynne Carnegie, all payments to be made from the Settlement Fund.

8. The Court awards \$_____ as reimbursement for costs and expenses to Co-Lead counsel to be distributed in their discretion thereafter between and among all Class Counsel in accordance with their out-of-pocket costs and expenses incurred in prosecuting this case.

9. Without affecting the finality of this judgment, the Court retains jurisdiction of this settlement, including the administration and consummation of the settlement. In addition, without affecting the finality of this judgment, the Court retains exclusive jurisdiction of, and the Beneficial Defendants, the Block Defendants and each member of the Class are hereby deemed to have submitted irrevocably to the exclusive jurisdiction of this Court for, any suit, action, proceeding or dispute arising out of or relating to this Order, the Settlement Agreement or the applicability of the Settlement Agreement. Without limiting the generality of the foregoing, any dispute concerning the Settlement

Agreement, including, but not limited to, any suit, action,

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arbitration or other proceeding by a class member in which the provisions of the settlement Agreement are asserted as a defense in whole or in part to any claim or cause of action or otherwise raised as an objection, shall constitute a suit, action or proceeding arising out of or relating to this Order. Solely for purposes of such suit, action or proceeding, to the fullest extent possible under applicable law, the parties hereto and all persons within the definition of the Class are hereby deemed to have irrevocably waived and agreed not to assert, by way of motion, as a defense or otherwise, any claim or objection that they are not subject to the jurisdiction of this Court, or that this Court is, in any way, an improper venue or an inconvenient forum.

10. The Court finds, pursuant to Rule 54(b) of the Federal Rules of Civil Procedure, that there is no just reason for delay, and directs the Clerk to enter final judgment.

BY THE COURT:

Honorable Elaine E. Bucklo

Dated: _____, 2006

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EXHIBIT "B"

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

LYNNE A. CARNEGIE, On Behalf of Herself	:
And All Others Similarly Situated,	: No. 98-C-2178
	:
Plaintiff	: Honorable Elaine E. Bucklo
	:
-against-	:
	:
HOUSEHOLD INTERNATIONAL, INC.,	:
HOUSEHOLD BANK, f.s.b, successor in interest	:
to BENEFICIAL NATIONAL BANK,	:
HOUSEHOLD TAX MASTERS, INC., formerly	:
known as BENEFICIAL TAX MASTERS, INC.,	:
BENEFICIAL FRANCHISE COMPANY, INC.,	:
H&R BLOCK, INC., H&R BLOCK SERVICES,	:
INC., H&R BLOCK TAX SERVICES, INC.,	:
H&R BLOCK EASTERN TAX SERVICES, INC.,	:
BLOCK FINANCIAL CORP., and HRB	:
ROYALTY, INC.,	:
	:
Defendants.	:

ORDER OF PRELIMINARY APPROVAL WITH RESPECT TO
NOTICE, HEARING, AND ADMINISTRATION
OF SETTLEMENT OF CLASS ACTION

WHEREAS, Plaintiff Lynne Carnegie, on behalf of the Class, as defined below ("Plaintiffs"), has entered into a settlement (the "Settlement") of the claims asserted in the above-captioned class action (the "Action") with Defendants H&R Block, Inc.; H&R Block Services, Inc.; H&R Block Tax Services, Inc.; Block Financial Corp.; HRB Royalty, Inc.; H&R Block Eastern Enterprise, Inc., successor to H&R Block Eastern Tax Services, Inc. (collectively, the "Block Defendants"); HSBC Finance Corporation, f/k/a Household International, Inc. (on behalf of itself, Household Finance Corp., Household Bank, f.s.b., and Beneficial National Bank); HSBC Taxpayer Financial Services, Inc. (f/k/a Household Tax Masters, Inc. and Beneficial Tax Masters Inc.); and Beneficial Franchise Company, Inc. (collectively, the "Beneficial Defendants") (the Block Defendants and Beneficial Defendants collectively are

referred to as the "Defendants");

WHEREAS, the Court previously certified a settlement class of all borrowers (with a few exceptions) who received refund anticipation loans ("RALs") in or before 1999 and whose claims were not barred by the statute of limitations. The Court subsequently certified a class on the merits limited to prosecution of a RICO claim and one claim for breach of contract against the Beneficial Defendants involving the law of only one state. Also excluded from the merits class were persons who took out RALs in 1997, 1998, and 1999, which had arbitration provisions. Defendants sought and obtained review of the merits certification decision pursuant to Fed. R. Civ. P. 23(f). The Seventh Circuit Court of Appeals affirmed the certification of that class. *Carnegie v. Household International Inc., et al.*, 376 F.3d 656 (7th Cir. 2004), cert. denied, 125 S. Ct. 877 (2005). The Court has since excluded from the class customers who obtained their only RAL prior to April 8, 1994.

WHEREAS, the "Class," as defined in Section II, Paragraph 4 of the Agreement of Settlement between Plaintiffs and Defendants (the "Settlement Agreement"), consists of persons in the United States who received a Refund Anticipation Loan ("RAL") from Beneficial National Bank through any H&R Block office anytime between April 8, 1994 and December 31, 1996;

WHEREAS, the Parties have made an application, pursuant to Rule 23(e) of the Federal Rules of Civil Procedure, for an Order preliminarily approving the Settlement of this Action in accordance with the Settlement Agreement;

AND WHEREAS, the Court, having read and considered the Settlement Agreement and the Exhibits and Appendices annexed thereto and finding that substantial and sufficient grounds exist for entering this Order; IT IS HEREBY ORDERED:

DEFINITIONS

1. The Court, for purposes of this Order, adopts all definitions of terms set forth in

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the Settlement Agreement.

PRELIMINARY APPROVAL AND SETTLEMENT HEARING

2. The Court finds that for purposes of preliminary approval, the terms of the Settlement Agreement are within the range of reasonableness for a class settlement. The terms of the Settlement Agreement are, therefore, preliminarily approved, subject to further consideration at a hearing to be held consistent with the requirements of Fed. R. Civ. P. 23(e) (the "Final Approval Hearing"), which shall be held before this Court on _____, 2006, at _____ a.m./p.m. in Room _____ of the United States District Court for the Northern District of Illinois, 219 South Dearborn Street, Chicago, Illinois, 60604.

3. During the Final Approval Hearing, the Court will: (i) determine whether the proposed Settlement is fair, reasonable and adequate and whether final judgment should be entered dismissing the Action as to the Defendants, with prejudice, and without costs; (ii) consider the petition by Co-Lead Class Counsel for payment of a reasonable Fee and Expense Award to include attorneys' fees, costs and expenses, and class representative incentive fees together with accrued interest thereon.

NOTICE TO CLASS MEMBERS

4. Co-Lead Class Counsel shall cause notice of the pendency of the Action, the proposed Settlement, the Final Approval Hearing, and the petition by Co-Lead Class Counsel for payment of a reasonable Fee and Expense Award, as follows:

(a) On or before May 14, 2006, a copy of the mailed Notice and Claim Form substantially in the form attached as Exhibit "_____" to the Settlement Agreement shall be mailed by first class mail, postage prepaid, to all members of the Class for whom there is a last known valid address, and any mail returned with a forwarding address will be promptly re-mailed to such address. Notice will not be sent to the Settlement Class members whose prior Zawikowski

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v. Beneficial National Bank, No. 98 C 2178 (N.D. III.) settlement notice was returned and whose new address does not appear in the Beneficial Defendants' electronic records regarding RALs.

(b) At or prior to the Final Approval Hearing, Co-Lead Class Counsel shall file proof, by affidavit, of such mailings.

(c) The Administrator and each Class Counsel that maintains a website will provide a link on its website to a central site maintained by the Administrator to obtain downloadable and printable copies of the Settlement Agreement;

(d) Publication notice of the Settlement Agreement will be provided through one Summary Notice to be published in each of the following publications:

- Parade, 2/5 page, 1x
- USA Weekend, Digest page, 1x
- Guidepost, Full page Digest, 1x
- National Enquirer, Digest page, 2x
- Reader's Digest, Full page Digest, 1x
- Ebony, Digest page, 1x
- Jet, Full page Digest, 2x
- Mira, Super Jr. Standard page, 2x (Spanish)
- Vista, 2/3 page, 1x (Spanish)

(e) Co-Lead Class Counsel designates Hilsoft Notifications and Poorman Douglas Corporation to assist in the Notice and Settlement claims administration process.

5. The Court approves the forms of Notice, Summary Notice and Claim Form. The Court finds that the procedures established for Notice, mailing and distribution of such Notices as set forth in this Order, and publication of the Summary Notice meet the requirements of Rule 23 of the Federal Rules of Civil

Procedure, and due process. The Court further finds that these procedures are the best notice practicable under the circumstances and shall constitute due and sufficient notice to all persons and entities entitled thereto.

6. The Settlement Administrator shall be responsible for the receipt of all written communications from the Class and shall preserve same, and all other written communications

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from members of the Class, or any other person in response to the Notices.

REQUESTS FOR EXCLUSION FROM THE SETTLEMENT

7. To request exclusion from the Settlement, a Class Member must mail or otherwise deliver to the Settlement Administrator an appropriate written request for exclusion, which request must be postmarked on or before _____, 2006 and actually received by the Settlement Administrator at the following address:

RAL Exclusions
P.O. Box 3207
Portland, Oregon 97208-3207

The request for exclusion must include (a) the name, address, social security number and telephone number of the person requesting exclusion; (b) the title of this Action; and (c) a statement requesting exclusion from the Class. The request must be personally signed by the Class Member requesting exclusion, and shall not be effective unless it is made in the manner and within the time set forth in this paragraph. Class Members who previously submitted a timely and valid request to be excluded from the settlement class previously certified by the Court under the caption Zawikowski v Beneficial National Bank et al., and who want to be excluded from the Class covered by this Order, must submit a separate timely request for exclusion in accordance with the procedures described in this Order. No Class Member, or any person acting on behalf of or in concert or participation with that Class Member, may request exclusion of any other Class Member from the settlement. The original requests for exclusion will be filed with the Court by the Settlement Administrator not later than 30 days before the Final Approval Hearing. Copies of requests for exclusion shall be provided by the Settlement Administrator to Co-Lead Class Counsel and counsel for the Defendants not later than 20 days before the Final Approval Hearing.

8. All Class Members (excluding those who have timely and properly requested exclusion in the manner set forth in Paragraph 8, to the limited extent provided by the terms of

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the Settlement Agreement) shall be bound by the releases and other terms and conditions set forth in the Settlement Agreement and all proceedings, orders and judgments in the Action, even if those persons have previously initiated or subsequently initiate individual litigation or other proceedings against the Defendants (or any of them) relating to the claims released pursuant to or covered by the terms of this Settlement.

OBJECTIONS BY CLASS MEMBERS

9. Subject to the requirements set forth in Paragraphs 10 and 11 below, any Class Member who has not requested exclusion from the Settlement may appear at the Final Approval Hearing to show cause as to any of the following: (i) why the proposed Settlement should not be approved as fair, reasonable and adequate; (ii) why a judgment should not be entered thereon; (iii) why the plan for distribution of cash should not be approved; or (iv) why Co-Lead Class Counsel

should or should not be awarded the attorneys' fees, costs, or reimbursement of expenses requested and Class Representative incentive fees. In accordance with the Settlement Agreement, any Class Member may so object either on their own or through an attorney hired at their own expense

10. In order to be heard to contest the approval of the Settlement Agreement, a Class Member must serve Co-Lead Counsel and counsel for Defendants (by mail, hand or by facsimile transmission) and delivered to the Court no later than 30 days prior to the Final Approval Hearing, a written statement of objections, including any legal support the Class Member wishes to bring to the Court's attention and any evidence the Class Member wishes to introduce in support of the objection along with the Class Member's social security number and signature.

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CO-LEAD CLASS COUNSEL:

Steven E. Angstreich, Esquire
Michael Coren, Esquire
Carolyn C. Lindheim, Esquire
LEVY, ANGSTREICH, FINNEY, BALDANTE,
RUBENSTEIN & COREN, P.C.
1616 Walnut Street, 5th Floor
Philadelphia, Pennsylvania 19103

Peter Linden, Esquire
Daniel Hume, Esquire
KIRBY, MCINERNEY & SQUIRE
830 Third Avenue, 10th Floor
New York, New York 10022

COUNSEL FOR DEFENDANTS:

Matthew M. Neumeier, Esquire
JENNER & BLOCK LLP
One IBM Plaza
330 N. Wabash
Chicago, Illinois 60611
Counsel for the Block Defendants

T. Robert Scarborough, Esquire
SIDLEY AUSTIN LLP
One South Dearborn Street
Chicago, Illinois 60603
Counsel for the Beneficial Defendants

11. Any Class Member who does not make an objection in the manner provided shall be deemed to have waived such objection and shall forever be foreclosed from making any objection to the fairness, adequacy or reasonableness of the proposed Settlement, the Order and Final Judgment to be entered approving the Settlement, the plan for distribution for cash in the Settlement Fund or the request for attorneys' fees, reimbursement of expenses and Class Representative incentive fees.

CLAIMS (CLAIMS PROCESS)

12. In order to be entitled to participate in the distribution of cash in the Settlement Fund (as defined in the Notice), a Class Member who has not requested exclusion from the Class must submit a completed and signed Valid Claim Form to the address provided in the Notice. To be valid and accepted, the Valid Claim Form must be postmarked and actually received no later than sixty (60) days after entry of the Final Order. Any Class Member who does not submit a Valid Claim Form shall not be entitled to share in the Settlement Fund, but nonetheless shall be barred and enjoined from asserting any of the Released Claims.

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TERMINATION

13. If the Settlement and the Settlement Agreement are not approved by the Court or do not receive final approval after review by any court of competent jurisdiction for any reason, or is terminated in accordance with its terms for

any other reason, the parties will be returned to their status immediately prior to execution of the Settlement Agreement as if the Settlement Agreement had never been made, and (i) the parties will be relieved from any orders or stipulations made in connection with the Settlement Agreement; (ii) the Action will proceed with the merits class previously certified by the Court as of March 29, 2004, as modified as of January 23, 2006 and February 22, 2006; and (iii) the Defendants reserve all procedural or substantive rights as of the date of execution of the Agreement and shall not be deemed to have waived any procedural and/or substantive rights or defenses of any kind that they may have with respect to any persons within the Class who were not members of the class that was certified on March 29, 2004.

ADDITIONAL OBLIGATIONS OF CO-LEAD COUNSEL AND THEIR AGENTS

14. The Settlement Administrator under the supervision of Co-Lead Class Counsel shall be responsible for administrating the initial receipt of all responses to the Notices, responding to inquiries from Class Members, and preserving all correspondence in response to the Notices.

15. The Settlement Administrator under the supervision of Co-Lead Class Counsel shall cause to be filed with the Clerk of Court affidavit(s) or declaration(s) of the person or persons under whose general direction the mailing of the Notice shall have been made, showing that such mailing has been made in accordance with this Order by _____, 2006.

16. Co-Lead Class Counsel shall cause to be filed with the Clerk of Courts affidavit(s) or declaration(s) of the person or persons under whose general direction the publication of the Summary Notice shall have been made, showing that such publication has

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been made in accordance with this Order by _____, 2006.

17. Co-Lead Class Counsel shall submit to the Court and to counsel for Defendants any papers in support of the Settlement and application for attorneys' fees and reimbursement of expenses by _____, 2006.

18. Co-Lead Class Counsel and counsel for Defendants, if they choose, shall file with the Court and serve on opposing counsel any papers in reply to any objection received, no later than three (3) days prior to the Final Approval Hearing.

POWERS AND JURISDICTION OF THE COURT

19. The Court expressly reserves its right to adjourn the Final Approval Hearing or any further adjournment thereof, and to approve the Settlement Agreement, including any modifications thereto which are acceptable to the parties, without further notice to Class Members.

20. The Court will have continuing jurisdiction over the Action for the purpose of implementing the Settlement until the Action and all related matters are fully resolved, and for enforcement of the Settlement, the Settlement Agreement and Final Order thereafter.

21. The parties to the Settlement Agreement are directed to carry out their obligations under the terms thereof.

APPROVED AND SO ORDERED:

DATED:

The Honorable Elaine E. Bucklo

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

LYNNE A. CARNEGIE, On Behalf of Herself	:
And All Others Similarly Situated,	: No. 98-C-2178
	:
Plaintiff	: Honorable Elaine E. Bucklo
	:
-against-	:
	:
HOUSEHOLD INTERNATIONAL, INC.,	:
HOUSEHOLD BANK, f.s.b, successor in	:
interest to BENEFICIAL NATIONAL BANK,	:
HOUSEHOLD TAX MASTERS, INC., formerly	:
known as BENEFICIAL TAX MASTERS, INC.,	:
BENEFICIAL FRANCHISE COMPANY, INC.,	:
H&R BLOCK, INC., H&R BLOCK SERVICES, INC.,	:
H&R BLOCK TAX SERVICES, INC.,	:
H&R BLOCK EASTERN TAX SERVICES, INC.,	:
BLOCK FINANCIAL CORP., and	:
HRB ROYALTY, INC.,	:
	:
Defendants.	:

ORDER OF PRELIMINARY APPROVAL WITH RESPECT TO
NOTICE, HEARING, AND ADMINISTRATION
OF SETTLEMENT OF CLASS ACTION

WHEREAS, Plaintiff Lynne Carnegie, on behalf of the Class, as defined below ("Plaintiffs"), has entered into a settlement (the "Settlement") of the claims asserted in the above-captioned class action (the "Action") with Defendants H&R Block, Inc.; H&R Block Services, Inc.; H&R Block Tax Services, Inc.; Block Financial Corp.; HRB Royalty, Inc.; H&R Block Eastern Enterprise, Inc., successor to H&R Block Eastern Tax Services, Inc. (collectively, the "Block Defendants"); HSBC Finance Corporation, f/k/a Household International, Inc. (on behalf of itself, Household Finance Corp., Household Bank, f.s.b., and Beneficial National Bank); HSBC Taxpayer Financial Services, Inc. (f/k/a Household Tax Masters, Inc. and Beneficial Tax Masters Inc.); and Beneficial Franchise Company, Inc. (collectively, the "Beneficial Defendants") (the Block Defendants and Beneficial Defendants collectively are

referred to as the "Defendants");

WHEREAS, the Court previously certified a settlement class of all borrowers (with a few exceptions) who received refund anticipation loans ("RALs") in or before 1999 and whose claims were not barred by the statute of limitations. The Court subsequently certified a class on the merits limited to prosecution of a RICO claim and one claim for breach of contract against the Beneficial Defendants involving the law of only one state. Also excluded from the merits class were persons who took out RALs in 1997, 1998, and 1999, which had arbitration provisions. Defendants sought and obtained review of the merits certification decision pursuant to Fed. R. Civ. P. 23(f). The Seventh Circuit Court of Appeals affirmed the certification of that class. *Carnegie v. Household International Inc.*, et al., 376 F.3d 656 (7th Cir. 2004), cert. denied, 125 S. Ct. 877 (2005). The Court has since excluded from the class customers who obtained their only RAL prior to April 8, 1994.

WHEREAS, the "Class," as defined in Section II, Paragraph 4 of the Agreement of Settlement between Plaintiffs and Defendants (the "Settlement Agreement"), consists of persons in the United States who received a Refund Anticipation Loan ("RAL") from Beneficial National Bank through any H&R Block

office anytime between April 8, 1994 and December 31, 1996;

WHEREAS, the Parties have made an application, pursuant to Rule 23(e) of the Federal Rules of Civil Procedure, for an Order preliminarily approving the Settlement of this Action in accordance with the Settlement Agreement;

AND WHEREAS, the Court, having read and considered the Settlement Agreement and the Exhibits and Appendices annexed thereto and finding that substantial and sufficient grounds exist for entering this Order; IT IS HEREBY ORDERED:

DEFINITIONS

1. The Court, for purposes of this Order, adopts all definitions of terms set forth in

2

the Settlement Agreement.

PRELIMINARY APPROVAL AND SETTLEMENT HEARING

2. The Court finds that for purposes of preliminary approval, the terms of the Settlement Agreement are within the range of reasonableness for a class settlement. The terms of the Settlement Agreement are, therefore, preliminarily approved, subject to further consideration at a hearing to be held consistent with the requirements of Fed. R. Civ. P. 23(e) (the "Final Approval Hearing"), which shall be held before this Court on _____, 2006, at _____ a.m./p.m. in Room _____ of the United States District Court for the Northern District of Illinois, 219 South Dearborn Street, Chicago, Illinois, 60604.

3. During the Final Approval Hearing, the Court will: (i) determine whether the proposed Settlement is fair, reasonable and adequate and whether final judgment should be entered dismissing the Action as to the Defendants, with prejudice, and without costs; (ii) consider the petition by Co-Lead Class Counsel for payment of a reasonable Fee and Expense Award to include attorneys' fees, costs and expenses, and class representative incentive fees together with accrued interest thereon.

NOTICE TO CLASS MEMBERS

4. Co-Lead Class Counsel shall cause notice of the pendency of the Action, the proposed Settlement, the Final Approval Hearing, and the petition by Co-Lead Class Counsel for payment of a reasonable Fee and Expense Award, as follows:

(a) On or before May 14, 2006, a copy of the mailed Notice and Claim Form substantially in the form attached as Exhibits "_____" to the Settlement Agreement shall be mailed by first class mail, postage prepaid, to all members of the Class for whom there is a last known valid address, and any mail returned with a forwarding address will be promptly re-mailed to such address. Notice will not be sent to the Settlement Class members whose prior Zawikowski

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v. Beneficial National Bank, No. 98 C 2178 (N.D. Ill.) settlement notice was returned and whose new address does not appear in the Beneficial Defendants' electronic records regarding RALs.

(b) At or prior to the Final Approval Hearing, Co-Lead Class Counsel shall file proof, by affidavit, of such mailings.

(c) The Administrator and each Class Counsel that maintains a website

will provide a link on its website to a central site maintained by the Administrator to obtain downloadable and printable copies of the Settlement Agreement;

(d) Publication notice of the Settlement Agreement will be provided through one Summary Notice to be published in each of the following publications:

- Parade, 2/5 page, 1x
- USA Weekend, Digest page, 1x

(e) Co-Lead Class Counsel designates Hilsoft Notifications and Poorman Douglas Corporation to assist in the Notice and Settlement claims administration process.

5. The Court approves the forms of Notice, Summary Notice and Claim Form. The Court finds that the procedures established for Notice, mailing and distribution of such Notices as set forth in this Order, and publication of the Summary Notice meet the requirements of Rule 23 of the Federal Rules of Civil Procedure, and due process. The Court further finds that these procedures are the best notice practicable under the circumstances and shall constitute due and sufficient notice to all persons and entities entitled thereto.

6. The Settlement Administrator shall be responsible for the receipt of all written communications from the Class and shall preserve same, and all other written communications from members of the Class, or any other person in response to the Notices.

REQUESTS FOR EXCLUSION FROM THE SETTLEMENT

7. To request exclusion from the Settlement, a Class Member must mail or otherwise

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deliver to the Settlement Administrator an appropriate written request for exclusion, which request must be postmarked on or before _____, 2006 and actually received by the Settlement Administrator at the following address:

RAL Exclusions
P.O. Box 3207
Portland, Oregon 97208-3207

The request for exclusion must include (a) the name, address, social security number and telephone number of the person requesting exclusion; (b) the title of this Action; and (c) a statement requesting exclusion from the Class. The request must be personally signed by the Class Member requesting exclusion, and shall not be effective unless it is made in the manner and within the time set forth in this paragraph. Class Members who previously submitted a timely and valid request to be excluded from the settlement class previously certified by the Court under the caption *Zawikowski v Beneficial National Bank et al.*, and who want to be excluded from the Class covered by this Order, must submit a separate timely request for exclusion in accordance with the procedures described in this Order. No Class Member, or any person acting on behalf of or in concert or participation with that Class Member, may request exclusion of any other Class Member from the settlement. The original requests for exclusion will be filed with the Court by the Settlement Administrator not later than 30 days before the Final Approval Hearing. Copies of requests for exclusion shall be provided by the Settlement Administrator to Co-Lead Class Counsel and counsel for the Defendants not later than 20 days before the Final Approval Hearing.

8. All Settlement Class Members (excluding those who have timely and properly requested exclusion in the manner set forth in Paragraph 8, to the limited extent provided by the terms of the Settlement Agreement) shall be bound

by the releases and other terms and conditions set forth in the Settlement Agreement and all proceedings, orders and judgments in the Action, even if those persons have previously initiated or subsequently initiate individual

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litigation or other proceedings against the Defendants (or any of them) relating to the claims released pursuant to or covered by the terms of this Settlement.

OBJECTIONS BY CLASS MEMBERS

9. Subject to the requirements set forth in Paragraphs 10 and 11 below, any Class Member who has not requested exclusion from the Settlement may appear at the Final Approval Hearing to show cause as to any of the following: (i) why the proposed Settlement should not be approved as fair, reasonable and adequate; (ii) why a judgment should not be entered thereon; (iii) why the plan for distribution of cash should not be approved; or (iv) why Co-Lead Class Counsel should or should not be awarded the attorneys' fees, costs, or reimbursement of expenses requested and Class Representative incentive fees. In accordance with the Settlement Agreement, any Class Member may so object either on their own or through an attorney hired at their own expense

10. In order to be heard to contest the approval of the Settlement Agreement, a Class Member must serve Co-Lead Counsel and counsel for Defendants (by mail, hand or by facsimile transmission) and delivered to the Court no later than 30 days prior to the Final Approval Hearing, a written statement of objections, including any legal support the Class Member wishes to bring to the Court's attention and any evidence the Class Member wishes to introduce in support of the objection along with the Class Member's social security number and signature.

CO-LEAD CLASS COUNSEL:

Steven E. Angstreich, Esquire
Michael Coren, Esquire
Carolyn C. Lindheim, Esquire

Peter Linden, Esquire
Daniel Hume, Esquire
KIRBY, MCINERNEY & SQUIRE

LEVY, ANGSTREICH, FINNEY, BALDANTE,
RUBENSTEIN & COREN, P.C.
1616 Walnut Street, 5th Floor
Philadelphia, Pennsylvania 19103

830 Third Avenue, 10th Floor
New York, New York 10022

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COUNSEL FOR DEFENDANTS:

Matthew M. Neumeier, Esquire
JENNER & BLOCK, LLP
One IBM Plaza
330 N. Wabash
Chicago, Illinois 60611
Counsel for the Block Defendants

T. Robert Scarborough, Esquire
SIDLEY AUSTIN LLP
One South Dearborn Street
Chicago, Illinois 60603
Counsel for the Beneficial Defendants

11. Any Class Member who does not make an objection in the manner provided shall be deemed to have waived such objection and shall forever be foreclosed from making any objection to the fairness, adequacy or reasonableness of the proposed Settlement, the Order and Final Judgment to be entered approving the Settlement, the plan for distribution for cash in the Settlement Fund or the request for attorneys' fees, reimbursement of expenses and Class Representative incentive fees.

CLAIMS (CLAIMS PROCESS)

12. In order to be entitled to participate in the distribution of cash in the Settlement Fund (as defined in the Notice), a Class Member who has not requested exclusion from the Class must submit a completed and signed Valid Claim Form to the address provided in the Notice. To be valid and accepted, the Valid Claim Form must be postmarked and actually received no later than 60 days after entry of the Final Order. Any Class Member who does not submit a Valid Claim Form shall not be entitled to share in the Settlement Fund, but nonetheless shall be barred and enjoined from asserting any of the Released Claims.

TERMINATION

13. If the Settlement and the Settlement Agreement are not approved by the Court or do not receive final approval after review by any court of competent jurisdiction for any reason, or is terminated in accordance with its terms for any other reason, the parties will be returned to their

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status immediately prior to execution of the Settlement Agreement as if the Settlement Agreement had never been made, and (i) the parties will be relieved from any orders or stipulations made in connection with the Settlement Agreement; (ii) the Action will proceed with the merits class previously certified by the Court as of March 29, 2004, as modified as of January 23, 2006 and February 22, 2006; and (iii) the Defendants reserve all procedural or substantive rights as of the date of execution of the Agreement and shall not be deemed to have waived any procedural and/or substantive rights or defenses of any kind that they may have with respect to any persons within the Class who were not members of the class that was certified on March 29, 2004.

ADDITIONAL OBLIGATIONS OF CO-LEAD COUNSEL AND THEIR AGENTS

14. The Settlement Administrator under the supervision of Co-Lead Class Counsel shall be responsible for administering the initial receipt of all responses to the Notices, responding to inquiries from Class Members, and preserving all correspondence in response to the Notices.

15. The Settlement Administrator under the supervision of Co-Lead Class Counsel shall cause to be filed with the Clerk of Court affidavit(s) or declaration(s) of the person or persons under whose general direction the mailing of the Notice shall have been made, showing that such mailing has been made in accordance with this Order by _____, 2006.

16. Co-Lead Class Counsel shall cause to be filed with the Clerk of Courts affidavit(s) or declaration(s) of the person or persons under whose general direction the publication of the Summary Notice shall have been made, showing that such publication has been made in accordance with this Order by _____, 2006.

17. Co-Lead Class Counsel shall submit to the Court and to counsel for Defendants any papers in support of the Settlement and application for attorneys' fees and reimbursement of expenses by _____, 2006.

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18. Co-Lead Class Counsel and counsel for Defendants, if they choose, shall file with the Court and serve on opposing counsel any papers in reply to any objection received, no later than three (3) days prior to the Final Approval Hearing.

POWERS AND JURISDICTION OF THE COURT

19. The Court expressly reserves its right to adjourn the Final Approval Hearing or any further adjournment thereof, and to approve the Settlement Agreement, including any modifications thereto which are acceptable to the parties, without further notice to Class Members.

20. The Court will have continuing jurisdiction over the Action for the purpose of implementing the Settlement until the Action and all related matters are fully resolved, and for enforcement of the Settlement, the Settlement Agreement and Final Order thereafter.

21. The parties to the Settlement Agreement are directed to carry out their obligations under the terms thereof.

APPROVED AND SO ORDERED:

DATED:

The Honorable Elaine E. Bucklo

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Exhibit C

Escrow Agreement

This Escrow Agreement (together with all appendices, exhibits, schedules and attachments hereto, this "Escrow Agreement"), dated as of this _____ day of _____ 2006, is made by HSBC Bank USA, National Association, solely in its capacity as escrow agent (the "Escrow Agent"); Levy Angstreich Finney Baldante Rubenstein & Coren P.C. and Kirby McInerney & Squire, LLP, as representatives of Lynne A. Carnegie and the Class as defined in Section II, Paragraph 4, of the Agreement of Settlement (as defined below) (each a "Plaintiffs' Representative" and together the "Plaintiffs' Representatives"); HSBC Finance Corporation f/k/a Household International, Inc., (on behalf of itself, Household Finance Corporation, Household Bank, f.s.b. and Beneficial National Bank), HSBC Taxpayer Financial Services Inc. (f/k/a Household Tax Masters Inc. and Beneficial Tax Masters, Inc.), and Beneficial Franchise Company, Inc., for themselves and all persons or entities acting on their behalf or at their direction (collectively, the "Beneficial Defendants"); HSBC Taxpayer Financial Services Inc. (f/k/a Household Tax Masters Inc. and Beneficial Tax Masters, Inc.), as the Beneficial Defendants' representative (the "Beneficial Defendants' Representative"); H&R Block, Inc., H&R Block Services, Inc., H&R Block Tax Services, Inc., Block Financial Corp., HRB Royalty, Inc., H&R Block Eastern Enterprise, Inc., successor to H&R Block Eastern Tax Services, Inc., for themselves and all persons or entities acting on their behalf or at their direction (collectively, the "Block Defendants"); and H&R Block, Inc., as the Block Defendants' representative (the "Block Defendants' Representative"). All of the foregoing shall be referred to collectively as the "Parties," and each of them as a "Party."

WHEREAS, the Plaintiffs' Representatives, the Beneficial Defendants and the Block Defendants have entered into the Agreement of Settlement dated April 19, 2006 (the "Agreement of Settlement") to resolve that certain action pending in the United States District Court for the Northern District of Illinois (the "Court") as Carnegie, et al. v. Household Int'l, Inc., et al, No. 98 C 2178;

WHEREAS, Plaintiffs' Representatives, the Beneficial Defendants and the Block Defendants have agreed to enter into this Escrow Agreement to facilitate the Agreement of Settlement;

WHEREAS, the Plaintiffs' Representatives, the Beneficial Defendants and the Block Defendants have requested the Escrow Agent to act in the capacity of escrow agent under this Escrow Agreement, and the Escrow Agent has agreed on the terms and conditions set forth in this Escrow Agreement; and

WHEREAS, the Plaintiffs' Representatives, the Beneficial Defendants and the Block Defendants represent and warrant to the Escrow Agent that they have not stated to any person or entity that the Escrow Agent's duties will include anything other than those duties stated in this Escrow Agreement.

Now, therefore, for due consideration, the sufficiency and delivery of which is hereby acknowledged, the Parties agree as follows;

Section 1. Appointment and Payment of Escrow Agent

Each of the Plaintiffs' Representatives, the Block Defendants and the Beneficial Defendants hereby appoints the Escrow Agent and its successors as escrow agent to receive, hold and distribute the Escrow Fund (as defined below) upon the terms and conditions set forth herein, and the Escrow Agent hereby accepts such appointment. The Escrow Agent shall be entitled to the fees set forth in the attached Annex I for its services provided hereunder. The Escrow Agent shall have a prior lien upon the Escrow Account for any costs, expenses and fees that may arise under this Escrow Agreement, including the reasonable fees, expenses and disbursements of counsel to the Escrow Agent, and may retain that portion of the Escrow Fund equal to such unpaid amounts, until all such costs, expenses and fees have been paid. The Escrow Agent shall transfer such amounts from the Escrow Account to the Escrow Agent.

Section 2. Establishment of Escrow Account

The Escrow Agent shall establish and maintain on behalf of Plaintiffs' Representatives, the Block Defendants, and the Beneficial Defendants, a non-interest bearing trust account, number 10-879425 (the "Escrow Account") into which there shall be immediately credited and held the Escrow Amount (as defined below) received by the Escrow Agent from the Block Defendants and the Beneficial Defendants in accordance with Section 3 hereof, and any income accrued thereon (with the Escrow Amount, the "Escrow Fund"). The funds credited to the Escrow Account shall be applied and disbursed only as provided herein. The Escrow Agent shall, to the extent required by law, segregate the funds credited to the Escrow Account from its other funds held as an agent or in trust. The Escrow Agent shall invest the Escrow Fund in accordance with Section 4 hereof.

Section 3. Deposits to the Escrow Account

(a) Within five (5) business days of the Court's entry of an order granting preliminary approval of the Agreement of Settlement, the Block Defendants and the Beneficial Defendants shall deliver to the Escrow Agent for deposit into the Escrow Account the amount of Thirty-Nine Million Dollars (\$39,000,000) (the "Escrow Amount") required to be placed in escrow pursuant to the terms of the Agreement of Settlement.

(b) The Escrow Amount shall be transferred to the Escrow Agent by wire transfer of immediately available funds to the following account:

HSBC Bank USA, N.A.
ABA# 021-001-088
ACCT. NAME: Corporate Trust
A/C #002600161

FFC: Carnegie RAL Settlement Fund, Account No. 10-879425

(c) Upon receipt by the Escrow Agent of the Escrow Amount, the Escrow Agent shall send a notice, in the form of Annex II attached hereto, to the Plaintiffs' Representatives, the Block Defendants' Representative, and the Beneficial Defendants' Representative.

Section 4. Investment of Escrow Fund

(a) The Escrow Agent is hereby instructed to invest and reinvest the Escrow Fund in an HSBC Bank-referred AAA money market fund. Unless otherwise directed by one of the Plaintiffs' Representatives in writing, the Escrow Agent is hereby instructed to invest and reinvest the Escrow Fund in the HSBC Investor Money Market Fund CL I, which is managed by HSBC Bank USA, National Association or any of its subsidiaries. The earnings realized from investments and all interest, if any, accruing on monies held in the Escrow Account shall be added to the Escrow Account. Any loss incurred from an investment, including all costs of investment or liquidation, including without limitation all withholding and other taxes, will be borne solely by the Escrow Account. The Plaintiffs' Representatives agree to furnish to the Escrow Agent upon execution of this Escrow Agreement and as subsequently required all appropriate U.S. tax forms and information in order for the Escrow Agent to comply with U.S. tax regulations. The Escrow Agent shall not be accountable or liable for any losses resulting from the sale or depreciation in the market value of any investments. Anything to the contrary notwithstanding, in no event shall the Escrow Agent be liable to any person or entity for special, punitive, indirect, consequential or incidental loss or damage of any kind whatsoever (including but not limited to lost profits), even if the Escrow Agent has been advised of the likelihood of such loss or damage.

(b) All instructions to change the investment election of the Escrow Account from one HSBC Bank referred AAA money market fund to another such fund shall be made by one of the Plaintiffs' Representatives in writing as set forth in Section 12 below. The Escrow Agent shall have two (2) business days from receipt of the change request to effect such change.

Section 5. Distributions from Escrow Account

(a) Funds representing the Escrow Fund on deposit in the Escrow Account shall be withdrawn by the Escrow Agent and transferred only in accordance with this Section 5.

(b) At any time following the deposit of the Escrow Amount into the Escrow Account pursuant to Section 3 hereof, one of the Plaintiffs' Representatives, the Block Defendants' Representative, and the Beneficial Defendants' Representative may deliver to the Escrow Agent joint written directions, in the form of Annex III attached hereto, directing the Escrow Agent to release all or some of the funds from the Escrow Account. The Escrow Agent shall be entitled to rely, exclusively, on any joint written direction

made by one of the Plaintiffs' Representatives, the Block Defendants' Representative, and the Beneficial Defendants' Representative and shall release funds from the Escrow Account from time to time as directed in any such joint written direction, solely to the extent of funds on deposit in the Escrow Account.

(c) In the event that the Court enters an order denying final approval of the Agreement of Settlement (and the time for all appeals or other appellate review has expired), then within 5 business days of receiving written notice of such event from the Block Defendants' Representative and the Beneficial Defendants' Representative in the form of Annex IV attached hereto, the Escrow Agent is hereby instructed to release all remaining funds from the Escrow Account. Such funds shall be transferred by wire transfer in immediately available funds in two equal amounts to the following accounts:

[Insert Block Defendants Wire and Account Information]

[Insert Beneficial Defendants Wire and Account Information]

(d) Unless otherwise specified in a joint written direction delivered pursuant to Section 5(b) hereof, all funds distributed from the Escrow Account to the Plaintiffs' Representatives shall be transferred by wire transfer in immediately available funds to the following account:

Hudson United Bank
1607 Walnut Street
Philadelphia, PA 19103

Section 6. Qualified Settlement Fund

(a) The Settlement Fund (as defined in the Agreement of Settlement) shall be considered a Qualified Settlement Fund ("QSF") within the meaning of 26 C.F.R. 1.468B-1.

(b) The Parties to this Escrow Agreement, other than the Escrow Agent, shall cooperate to undertake all actions or filings required under 26 C.F.R. 1.468B.

(c) In no event shall the Escrow Agent have any responsibility, duty or obligation with respect to or under this Section 6.

Section 7. Duties of the Escrow Agent

The Escrow Agent's duties and responsibilities in connection with this Escrow Agreement shall be purely ministerial and shall be limited to those expressly set forth in

this Escrow Agreement, and the Escrow Agent shall not be liable except for the performance of such duties and obligations as are specifically set out in this Escrow Agreement. The Escrow Agent is not a principal, participant or beneficiary in any transaction underlying this Escrow Agreement and shall have no duty to inquire beyond the terms and provisions hereof. The Escrow Agent is not a party to, and is not bound by, any agreement or other document out of which this Escrow Agreement may arise, including without limitation the Agreement of Settlement. The Escrow Agent shall be under no liability to any Party by reason of any failure on the part of any Party or any maker, guarantor, endorser or other signatory of any document or any other person to perform such person's obligations under any such document. The Escrow Agent shall have no duty or obligation of any kind in connection with this Escrow Agreement or the Escrow Fund and shall not be required to deliver the Escrow Fund or any part thereof or to take any action with respect to any matters that might arise in connection therewith, other than to receive, hold and deliver the Escrow Fund as provided herein. Without limiting the generality of the foregoing, it is hereby expressly agreed by the Parties hereto that the Escrow Agent shall not be required to exercise any discretion hereunder and shall have no investment or management responsibilities with respect to the Escrow Fund other than set forth in this Escrow Agreement. It is the intention of the Parties hereto that the Escrow Agent shall never be required to use, advance or risk its own funds or otherwise incur financial liability in the performance of any of its duties or the exercise of any of its rights or powers hereunder. This Escrow Agreement shall not be deemed to create a fiduciary relationship between the Parties hereto under state or federal law and the Escrow Agent shall not have any fiduciary obligations or duties to any person or entity in connection with this Escrow Agreement or otherwise.

Section 8. Liability of Escrow Agent; Rights of Escrow Agent

The Escrow Agent shall not be liable for any action taken or omitted by it, or any action suffered by it to be taken or omitted, in good faith, and in the exercise of its rights or powers hereunder, and may rely conclusively and shall be protected in acting upon any order, notice, demand, certificate, opinion or advice of counsel (including counsel chosen by the Escrow Agent), statement, instrument, report or other paper or document (not only as to its due execution and the validity and effectiveness of its provisions, but also as to the truth and acceptability of any information therein contained) which is reasonably believed by the Escrow Agent to be genuine and to be signed or presented by the proper person(s). The Escrow Agent shall not be held liable for any error in judgment made in good faith by an officer of the Escrow Agent unless it shall be proved that the Escrow Agent was grossly negligent in ascertaining the pertinent facts. The Escrow Agent shall not be bound by any notice of demand, or any

waiver, modification, termination or rescission of this Escrow Agreement or any of the terms hereof, unless evidenced by a writing delivered to the Escrow Agent signed by the proper party or parties and, if the duties or rights of the Escrow Agent are affected, unless it shall give its prior written consent thereto.

The Escrow Agent shall not be responsible for, and may conclusively rely upon, the sufficiency or accuracy of the form of, or the execution, validity, value or

genuineness of any document or property received, held or delivered by it hereunder, or of the signature or endorsement thereon, or for any description therein; nor shall the Escrow Agent be responsible or liable in any respect on account of the identity, authority or rights of the persons executing or delivering or purporting to execute or deliver a document, property or this Escrow Agreement (other than on behalf of the Escrow Agent).

In the event that the Escrow Agent shall become involved in any arbitration or litigation relating to the Escrow Fund, the Escrow Agent is authorized to comply with any decision reached through such arbitration or litigation.

The Escrow Agent shall not be responsible in any manner for the validity or sufficiency of this Escrow Agreement or of any property delivered hereunder, or for the value or collectibility of any note, check or other instrument, if any, so delivered, or for any representations made or obligations assumed by any Party other than the Escrow Agent. Nothing herein contained shall be deemed to obligate the Escrow Agent to deliver any cash, instruments, documents or any other property referred to herein, unless the same shall have first been received by the Escrow Agent pursuant to this Escrow Agreement.

The Plaintiffs' Representatives, the Block Defendants' Representative, and the Beneficial Defendants' Representative shall deliver to the Escrow Agent a list of authorized signatories of the Plaintiffs' Representatives, the Block Defendants' Representative and the Beneficial Defendants' Representative, respectively, as set forth in Annex V attached hereto, with respect to any notice, certificate, instrument, demand, request, direction, instruction, waiver, receipt, consent or other document or communication required or permitted to be furnished to the Escrow Agent hereunder, and the Escrow Agent shall be entitled to rely on such list with respect to any Party until a new list is furnished by such Party to the Escrow Agent. The Escrow Agent shall be fully protected in acting on and relying upon any written notice, direction, request, waiver, consent, receipt or other paper or document which the Escrow Agent in good faith believes to have been signed and presented by the proper Party or Parties.

The Parties agree that should any dispute arise with respect to the payment, ownership or right of possession of the Escrow Account, the Escrow Agent is authorized and directed to retain in its possession, without liability to anyone, except for its bad faith, willful misconduct or gross negligence, all or any part of the Escrow Account until such dispute shall have been settled either by mutual agreement by the Parties concerned or by the final order, decree or judgment of a court or other tribunal of competent jurisdiction in the United States of America, and a notice executed by the Parties to the dispute or their authorized representatives shall have been delivered to the Escrow Agent setting forth the resolution of the dispute. The Escrow Agent shall be under no duty whatsoever to institute, defend or partake in such proceedings.

In each case that the Escrow Agent may or is required hereunder to take any action (an "Action"), including without limitation to release any of the Escrow Fund, the

Escrow Agent may seek direction from the Plaintiffs' Representatives, the Block Defendants' Representative, and the Beneficial Defendants' Representative. The Escrow Agent shall not be liable with respect to any Action taken or omitted to be taken by it in good faith in accordance with the direction from the

Plaintiffs' Representatives, the Block Defendants' Representative, and the Beneficial Defendants' Representative. If the Escrow Agent shall request direction from the Plaintiffs' Representatives, the Block Defendants' Representative, and the Beneficial Defendants' Representative with respect to any Action, the Escrow Agent shall be entitled to refrain from such Action unless and until the Escrow Agent shall have received direction from the Plaintiffs' Representatives, the Block Defendants' Representative, and the Beneficial Defendants' Representative, and the Escrow Agent shall not incur liability to any person by reason of so refraining.

The agreements set forth in this Section 8 and in Sections 1 and 10 hereof shall survive the resignation or removal of Escrow Agent, the termination of this Escrow Agreement and the payment of all amounts hereunder.

Section 9. Resignation

The Escrow Agent may resign at any time and be discharged from its duties and obligations hereunder upon giving written notice to the Plaintiffs' Representatives, the Block Defendants' Representative, and the Beneficial Defendants' Representative thirty (30) days before the effective date of such notice of resignation. In the event of such resignation, one of the Plaintiffs' Representatives, the Block Defendants' Representative, and the Beneficial Defendants' Representative shall appoint a successor escrow agent by delivering to the Escrow Agent a written notice of such appointment. Upon receipt of such notice, the Escrow Agent shall deliver to the designated successor escrow agent all money and other property held hereunder and shall thereupon be released and discharged from any and all further responsibilities whatsoever under this Escrow Agreement; provided, however, that the Escrow Agent shall not be deprived of its compensation earned prior to that time.

If no successor escrow agent is named as provided in this Section 9 prior to the date specified in the Escrow Agent's notice, all obligations of the Escrow Agent hereunder shall nevertheless cease and terminate. Its sole responsibility thereafter shall be to keep safely all property then held by it and to deliver the same to a person designated by one of the Plaintiffs' Representatives, the Block Defendants' Representative, and the Beneficial Defendants' Representative or in accordance with the direction of a final order or judgment of a court of competent jurisdiction.

Section 10. Indemnity

The Plaintiffs' Representatives, the Block Defendants and the Beneficial Defendants shall severally (and not jointly) indemnify the Escrow Agent and hold it harmless from any loss, liability, or expense incurred in connection with this Escrow Agreement and carrying out its duties hereunder, including without limitation the legal fees, costs and expenses of defending itself against any claim of liability in connection

with this Escrow Agreement, except for any such loss, liability or expense as may result from the willful misconduct or gross negligence of the Escrow Agent. The Escrow Agent shall be under no obligation to institute or defend any action, suit, or legal proceeding in connection herewith, unless first indemnified and held harmless to its satisfaction in accordance with the foregoing, except that the Escrow Agent shall not be indemnified against any loss, liability or expense arising out of its willful misconduct or gross negligence. Such indemnity shall survive the termination or discharge of this Escrow Agreement, the payment of all amounts hereunder and the resignation of the Escrow Agent.

Section 11. Inspection

The Plaintiffs' Representatives, the Block Defendants' Representative, and the Beneficial Defendants' Representative may at any time during the Escrow Agent's business hours (with reasonable notice) inspect any records or reports relating to the Escrow Fund.

Section 12. Notices

(a) All notices, instructions, demands, directions and instruments under this Escrow Agreement shall be in writing.

(b) Each of the Plaintiffs' Representatives, the Block Defendants' Representative and the Beneficial Defendants' Representative shall be copied on all written communication relating to this Escrow Agreement between the Escrow Agent and any other such Party or Parties, including but not limited to any direction to change the investment election pursuant to Section 4 of this Escrow Agreement.

(c) All written communications (except for wire transfers as set forth above) shall be delivered by facsimile (followed by overnight mail) or overnight mail to the Parties at the following facsimile numbers and addresses, and each Party may change such facsimile number or address by written notice to the other Parties:

(i) To the Plaintiffs' Representatives:

Levy Angstreich Finney Baldante
Rubenstein & Coren P.C.
1616 Walnut Street, 5th Floor
Philadelphia, PA 19103
Fax: (215) 545-2642
Attention: Steven Angstreich, Esq.

-and-

Kirby McInerney & Squire, LLP
830 Third Avenue, 10th Floor

New York, NY 10022
Fax: (212) 751-2540
Attention: Peter S. Linden, Esq.

(ii) To the Block Defendants' Representative on behalf of the Block Defendants:

H&R Block, Inc.
c/o Jenner & Block LLP
One IBM Plaza
Chicago, Illinois 60611
Fax: (312) 840-7749
Attention: Matthew M. Neumeier

(iii) To the Beneficial Defendants' Representative on behalf of the Beneficial Defendants:

HSBC Taxpayer Financial Services Inc.
c/o Sidley Austin, LLP
One South Dearborn Street
Chicago, IL 60603
Fax: (312) 853-7036
Attention: T. Robert Scarborough

(iv) To the Escrow Agent:

HSBC Bank USA, National Association
452 Fifth Avenue
New York, New York 10018
Fax: (212) 525-1300
Attention: Corporate Trust & Loan Agency

Delivery of any communication given in accordance with this Section 12 shall be effective upon actual receipt thereof by the Party or Parties to which such communication is directed.

(d) To the extent that it is necessary for any Party's counsel to speak with the Escrow Agent, counsel for the other Parties must each participate in each such conversation, whether by telephone or in-person.

(e) NO ORAL STATEMENT SHALL BE BINDING ON ANY PARTY TO THIS ESCROW AGREEMENT, UNDER ANY CIRCUMSTANCES WHATSOEVER. THE PLAINTIFFS' REPRESENTATIVES, THE BLOCK DEFENDANTS, AND THE BENEFICIAL DEFENDANTS EXPRESSLY UNDERSTAND AND ACKNOWLEDGE THAT THEY WILL NOT RELY ON ANY ORAL REPRESENTATION OF THE ESCROW AGENT, OR ANYONE PURPORTING TO ACT ON SUCH AGENT'S BEHALF, FOR ANY PURPOSE WHATSOEVER.

Section 13. Dispute Resolution and Waivers

All disputes between or among the Parties that arise out of or relate in any way to this Escrow Agreement shall be submitted to Judge Elaine E. Bucklo of the Northern District of Illinois, Eastern Division, pursuant to her continuing jurisdiction to decide disputes related to the Agreement of Settlement.

Section 14. Termination

This Escrow Agreement shall terminate upon mutual agreement by the Plaintiffs' Representatives, the Block Defendants' Representative and the Beneficial Defendants' Representative and delivery of a written notice thereof from the Plaintiffs' Representatives, the Block Defendants' Representative and the Beneficial Defendants' Representative to the Escrow Agent. Upon such termination, any funds remaining in the Escrow Account shall be distributed by the Escrow Agent in accordance with a joint written instruction pursuant to Section 5(b) hereof.

Section 15. Other Terms

(a) ENTIRE AGREEMENT. This Escrow Agreement constitutes the entire agreement and understanding among the Parties with respect to the Escrow Fund, and supersedes any and all prior negotiations and agreements or understandings (oral or written) with respect to the subject matter hereof.

(b) NEUTRAL INTERPRETATION. This Escrow Agreement shall not be construed more strictly against one Party than another merely because it may have been prepared by counsel for one of the Parties, it being recognized that, because of the arms-length negotiations and mediation resulting in this Escrow Agreement, all parties have contributed substantially and materially to the preparation of this Escrow Agreement.

(c) CHOICE OF LAW. This Escrow Agreement will be governed by the internal laws of the State of New York, without regard to its choice of law principles.

(d) MODIFICATIONS OR AMENDMENTS. This Escrow Agreement may not be modified or amended except by a writing signed by all Parties and, for all Parties other than the Escrow Agent, their respective counsel and the subsequent approval of the Court.

(e) COUNTERPARTS. This Escrow Agreement may be executed in counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one and the same instrument.

(f) COMPETENCY; INDEPENDENT COUNSEL. Each Party to this Escrow Agreement represents and warrants that he, she, or it is competent to enter into the Escrow Agreement and in doing so is acting upon his, her, or its independent judgment and upon the advice of his, her, or its own counsel and not in reliance upon any warranty

or representation, express or implied, of any nature or kind by any other Party, other than the terms expressly set forth in this Escrow Agreement.

(g) CONFLICT WAIVER. The Parties acknowledge that the Escrow Agent is an affiliate of the Beneficial Defendants, and the Parties waive any conflict of interest caused thereby.

(h) RECITALS. The recitals contained herein shall be taken as the statements of the Plaintiffs' Representatives, the Block Defendants and the Beneficial Defendants, and the Escrow Agent assumes no responsibility for their correctness.

IN WITNESS WHEREOF, the undersigned parties hereto have caused this Escrow Agreement to be duly executed on the date first written above:

PLAINTIFFS' REPRESENTATIVES:

LEVY ANGSTREICH FINNEY BALDANTE,
RUBENSTEIN & COREN, P.C.

By: _____
Steven E. Angstreich, Esq.
Class Counsel

KIRBY McINERNEY & SQUIRE, LLP

By: _____
Peter S. Linden, Esq.
Class Counsel

BLOCK DEFENDANTS:

H&R BLOCK, INC., H&R BLOCK
SERVICES, INC., H&R BLOCK TAX
SERVICES, INC., BLOCK FINANCIAL
CORP., HRB ROYALTY, INC., H&R
BLOCK EASTERN ENTERPRISE, INC.,
successor to H&R BLOCK EASTERN TAX
SERVICES, INC.

By: _____
Printed Name: _____
Title: _____

BLOCK DEFENDANTS' REPRESENTATIVE:

H&R BLOCK, INC.

By: _____
Printed Name: _____
Title: _____

BENEFICIAL DEFENDANTS:

HSBC FINANCE CORPORATION
F/K/A HOUSEHOLD
INTERNATIONAL, INC., (ON
BEHALF OF ITSELF,
HOUSEHOLD FINANCE
CORPORATION, HOUSEHOLD
BANK, F.S.B. AND BENEFICIAL
NATIONAL BANK), HSBC
TAXPAYER FINANCIAL
SERVICES INC. (F/K/A
HOUSEHOLD TAX MASTERS
INC. AND BENEFICIAL TAX
MASTERS, INC.), AND
BENEFICIAL FRANCHISE
COMPANY, INC.

By: _____

Printed Name: _____

Title: _____

BENEFICIAL DEFENDANTS' REPRESENTATIVE:

HSBC TAXPAYER FINANCIAL
SERVICES INC. (F/K/A
HOUSEHOLD TAX MASTERS
INC. AND BENEFICIAL TAX
MASTERS, INC.)

By: _____

Printed Name: _____

Title: _____

ESCROW AGENT:

HSBC BANK USA, NATIONAL ASSOCIATION,
solely in its capacity as Escrow Agent

By: _____

Name: _____

Title: _____

ANNEX I

ESCROW AGENT
FEE SCHEDULE

[see next page]

(HSBC LOGO)

HSBC Bank USA, National Association
452 Fifth Avenue
New York, New York 10018
Corporate Trust & Loan Agency

CARNEGIE SETTLEMENT FUND
SCHEDULE OF FEES
FOR SERVICES AS ESCROW AGENT

ONE-TIME FEE: \$1,000

This one-time fee covers the acceptance of our appointment, review and consideration of the documents, consultation with attorneys, and establishment of procedures to perform the services required by the documents.

ANNUAL FEE: \$3,500

This annual fee covers the ordinary administrative and operational responsibilities of the Escrow Agent, including L/C draws, receipt, investment and disbursements of funds, and required account statements. This fee is payable in advance with no proration for partial years.

LEGAL FEES & EXPENSES: AT COST

Fees and expenses for professional services rendered to the Escrow Agent from time to time.

OUT-OF-POCKET EXPENSES: AT COST

These expenses are those incurred by us on your behalf to effectively service your account on a day-to-day basis. They include, but are not limited to, the following items: accountant and counsel fees, postage, stationery, express mail, telephone and facsimile charges. A detailed explanation for each expense will be included on your billing statement.

In connection with the above-referenced transaction, HSBC Bank USA, National Association ("HSBC"), as a service may from time to time purchase and sell securities and other financial instruments, which may include, without limitation, investments in and sales of mutual funds. In order to execute such purchase and sale transactions, HSBC may use one or more brokers and dealers, which may include any of HSBC's affiliates, including HSBC Securities (USA) Inc. Such brokers and dealers may charge fees, commissions and costs associated with the transactions, which, if charged to HSBC, will charge back to you. In addition, such brokers and dealers may earn compensation from the spread between their bid and offer prices for certain securities and other financial instruments, by purchasing at a discount and selling at premium. If any of HSBC's affiliates executes a purchase or sale transaction, such affiliate shall earn its usual and customary charges and spread for transactions of similar type. Further, in connection with an investment in a mutual fund, HSBC and/or its affiliates may earn an investment management fee, a revenue sharing fee or other compensation from the applicable mutual fund company, which may be managed by, or otherwise associated with, HSBC or its affiliates, as such fees and compensation are disclosed in the prospectus for such mutual fund. You hereby acknowledge and agree that HSBC and its affiliates shall be entitled to keep, for their own account, any and all of the foregoing fees, commissions, spreads and other compensation, and reimbursement of costs, earned or charged in connection with the purchase and the sale of securities and other

financial instruments, in addition to the above-specified fees and expenses payable to HSBC in connection with the transaction.

IMPORTANT INFORMATION FOR OPENING A NEW ACCOUNT

TO HELP THE GOVERNMENT FIGHT THE FUNDING OF TERRORISM AND MONEY LAUNDERING ACTIVITIES, FEDERAL LAW REQUIRES ALL FINANCIAL INSTITUTIONS TO OBTAIN, VERIFY AND RECORD INFORMATION THAT IDENTIFIES EACH PERSON OR ENTITY THAT OPENS AN ACCOUNT.

WHAT THIS MEANS TO YOU: IF YOU OPEN AN ACCOUNT, WE ARE REQUIRED TO ASK YOUR NAME, ADDRESS, TAX IDENTIFICATION NUMBER, AND OTHER INFORMATION THAT WILL ALLOW US TO IDENTIFY YOU. ADDITIONALLY, WE MAY BE REQUIRED TO TAKE CERTAIN STEPS TO VERIFY YOUR IDENTITY THROUGH DOCUMENTS OR BY CHECKING OTHER SOURCES

ANNEX II

FORM OF NOTICE OF
RECEIPT OF ESCROW AMOUNT

[_____] , 2006

Levy Angstreich Finney Baldante
Rubenstein & Coren P.C.,
Plaintiffs' Representative
1616 Walnut Street, 5th Floor
Philadelphia, PA 19103
Fax: (215)545-2642
Attention: Steven Angstreich, Esq.

Kirby McInerney & Squire, LLP, as a
Plaintiffs' Representative
830 Third Avenue, 10th Floor
New York, NY 10022
Fax: (212)751-2540
Attention: Peter S. Linden, Esq.

H&R Block, Inc., as the Block Defendants' Representative
c/o Jenner & Block LLP
One IBM Plaza
Chicago, Illinois 60611
Fax: (312)840-7749
Attention: Matthew M. Neumeier

HSBC Taxpayer Financial Services Inc., as
the Beneficial Defendants' Representative
c/o Sidley Austin, LLP
One South Dearborn Street
Chicago, IL 60603
Fax: (312)853-7036
Attention: T. Robert Scarborough

Dear Sir or Madame:

In accordance with the terms of Section 3(c) of that certain Escrow Agreement (the "Escrow Agreement"), dated as of _____, 2006, among the Plaintiffs' Representatives, the Beneficial Defendants, the Block Defendants, the representatives parties thereto and HSBC Bank USA, National Association, solely in its capacity as Escrow Agent, the Escrow Agent hereby confirms receipt of the Escrow Amount.

All capitalized terms used but not defined herein shall have the meanings set forth in the Escrow Agreement.

HSBC BANK USA, NATIONAL ASSOCIATION,
solely in its capacity as Escrow Agent

By: _____
Name: _____
Title: _____

ANNEX III

FORM OF JOINT DIRECTION

[_____] , 2006

HSBC Bank USA, National Association,
as Escrow Agent
452 Fifth Avenue
New York, New York 10018
Attention: Corporate Trust & Loan Agency
Facsimile: (212)525-1300

Dear Sir or Madame:

In accordance with the terms of Section 5(b) of that certain Escrow Agreement (the "Escrow Agreement"), dated as of _____, 2006, among the Plaintiffs' Representatives, the Beneficial Defendants, the Block Defendants, the representatives parties thereto and HSBC Bank USA, National Association, solely in its capacity as Escrow Agent, the Plaintiffs' Representative, the Block Defendants' Representative and the Beneficial Defendants' Representative hereby direct the Escrow Agent to release from the Escrow Account to _____ Escrow Funds in the amount of \$_____, payable in accordance with the following wire instructions:

[_____]
Bank: _____
Account Name: _____
Account Number: _____
Routing/ABA: _____
Contact: _____

All capitalized terms used but not defined herein shall have the meanings set forth in the Escrow Agreement.

[LEVY ANGSTREICH FINNEY BALDANTE,
RUBENSTEIN & COREN, P.C., as a
Plaintiffs' Representative]

-or-

[KIRBY McINERNEY & SQUIRE, LLP, as a
Plaintiffs' Representative]

By: _____
Name: _____
Title: _____

H&R BLOCK, INC., as the Block
Defendants' Representative

By: _____
Name: _____
Title: _____

HSBC TAXPAYER FINANCIAL SERVICES INC.
(F/K/A HOUSEHOLD TAX MASTERS INC. AND
BENEFICIAL TAX MASTERS, INC.), as the
Beneficial Defendants' Representative

By: _____
Name: _____
Title: _____

ANNEX IV

FORM OF NOTICE REGARDING ORDER

[_____] , 2006

HSBC Bank USA, National Association,
as Escrow Agent
452 Fifth Avenue
New York, New York 10018
Attention: Corporate Trust & Loan Agency
Facsimile: (212)525-1300

Dear Sir or Madame:

In accordance with the terms of Section 5(c) of that certain Escrow Agreement (the "Escrow Agreement"), dated as of _____, 2006, among the Plaintiffs' Representatives, the Beneficial Defendants, the Block Defendants, the representatives parties thereto and HSBC Bank USA, National Association, solely in its capacity as Escrow Agent, the Block Defendants' Representative and the Beneficial Defendants' Representative hereby notify you of the entry by the Court of an order denying final approval of the Agreement of Settlement, and that the time for all appeals or other appellate review has expired. Within 5 business days of receiving this notice, you are hereby instructed to release all remaining funds from the Escrow Account in accordance with the provisions of Section 5(c) of the Escrow Agreement.

All capitalized terms used but not defined herein shall have the meanings set forth in the Escrow Agreement.

H&R BLOCK, INC., as the Block
Defendants' Representative

By: _____
Name: _____
Title: _____

HSBC TAXPAYER FINANCIAL SERVICES INC.
(F/K/A HOUSEHOLD TAX MASTERS INC. AND

BENEFICIAL TAX MASTERS, INC.), as the
Beneficial Defendants' Representative

By: _____
Name: _____
Title: _____

cc: Levy Angstreich Finney Baldante
Rubenstein & Coren P.C.,

Plaintiffs' Representative
1616 Walnut Street, 5th Floor
Philadelphia, PA 19103
Fax: (215)545-2642
Attention: Steven Angstreich, Esq.

Kirby McInerney & Squire, LLP,
as a Plaintiffs' Representative
830 Third Avenue, 10th Floor
New York, NY 10022
Fax: (212)751-2540
Attention: Peter S. Linden, Esq.

ANNEX V

INSTRUCTIONS

Escrow Agent is authorized to accept instructions signed by the following on
behalf of:

Levy Angstreich Finney Baldante
Rubenstein & Coren P.C., as a
Plaintiffs' Representative:

Steven E. Angstreich, Esq. _____
Class Counsel True Signature

Kirby McInerney & Squire, LLP, as a
Plaintiffs' Representative:

Peter S. Linden, Esq. _____
Class Counsel True Signature

H&R Block, Inc., as Block Defendants'
Representative;

[name] _____
True Signature

[title]

HSBC Taxpayer Financial Services
Inc., as Beneficial Defendants'
Representative:

[name]

True Signature

[title]

AMENDMENT NUMBER SEVEN
to the
AMENDED AND RESTATED INDENTURE
between
OPTION ONE OWNER TRUST 2001-1A
and
WELLS FARGO BANK, N.A.

This AMENDMENT NUMBER SEVEN (this "Amendment") is made and is effective as of this 28th day of April, 2006, between Option One Owner Trust 2001-1A (the "Issuer") and Wells Fargo Bank, N.A. (formerly known as Wells Fargo Bank Minnesota, National Association), as Indenture Trustee (the "Indenture Trustee"), to the Amended and Restated Indenture dated as of November 25, 2003 (as amended, the "Indenture"), between the Issuer and the Indenture Trustee.

RECITALS

WHEREAS, the parties hereto desire to amend the Indenture to extend the facility for an additional year and to revise certain events of default subject to the terms and conditions of this Amendment Number Seven.

WHEREAS, the Indenture Trustee (as directed by the Noteholder), the Noteholder, the Owner Trustee and the Indenture Trustee hereby waive the various notice requirements in connection with this Amendment Number Seven set forth in the Indenture and the Trust Agreement; and

NOW THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and of the mutual covenants herein contained, the parties hereto hereby agree as follows:

SECTION 1. Defined Terms. Any terms capitalized but not otherwise defined herein shall have the respective meanings set forth in the Indenture.

SECTION 2. Amendments. The Indenture is hereby amended as follows:

(a) Section 1.01 of the Indenture is hereby amended by deleting in its entirety the definition of "Maturity Date" and replacing it with the following:

"Maturity Date: means, with respect to the Notes, April 29, 2007."

(b) Section 5.01 of the Indenture is hereby amended by deleting in its entirety clause (f) and replacing it with the following new clause (f) the definition of "Maturity Date" and replacing it with the following:

(f) default by the Loan Originator in the payment of an amount in excess of \$1,000,000, if such payment default is not cured within two (2) business days of Loan Originator's knowledge of such default, that is then due and owing under any repurchase agreement, loan and security agreement or other similar credit facility agreement or derivative contract entered into by the Loan Originator and any third party for borrowed funds or with a notional amount in excess of \$30,000,000 (each such agreement, a "Material Agreement"), including any

payment default which entitles any party to require acceleration or repayment of any indebtedness thereunder;

(c) Section 5.01 of the Indenture is hereby amended by adding "; or" to the end of clause (j) in lieu of the "." and adding the following new clause (k) immediately thereafter:

(k) a material default by the Loan Originator in the observance or

performance of any covenant or agreement (other than a default specified in clause (f) above) under a Material Agreement (as defined above in clause (f)), if such default is not cured (i) within sixty (60) business days of Loan Originator's knowledge of such default, if such default involves a failure to deliver financial statements or (ii) within thirty (30) business days of Loan Originator's knowledge of such default, if such default involves an event other than a failure to deliver financial statements. For the avoidance of doubt, any default which causes any party to actually accelerate or demand repayment of any indebtedness or otherwise exercise remedies under a Material Agreement shall be an Event of Default hereunder for which no cure period shall apply; provided that such acceleration, demand or exercise of rights is continuing;

SECTION 3. Direction and Instruction.

(a) The Issuer, by signing this Amendment Number Seven, hereby directs and instructs the Indenture Trustee to enter into this Amendment Number Seven pursuant to Section 9.02 of the Indenture. The Issuer, the Owner Trustee and the Indenture Trustee hereby acknowledge and agree that the direction and instruction set forth in the previous sentence shall constitute the Issuer Order required by Section 9.02 of the Indenture. The Indenture Trustee hereby waives receipt of an Opinion of Counsel required pursuant to Section 9.03 of the Indenture.

(b) Option One Loan Warehouse Corporation, as holder of 100% Percentage Interests in the Trust Certificate issued pursuant to the Trust Agreement, hereby directs and instructs Wilmington Trust Company under the Trust Agreement to execute this Amendment Number Seven in its capacity as Owner Trustee and on behalf of the Trust, and agrees that Wilmington Trust Company is covered by the fee and indemnification provisions of the Trust Agreement in connection with this request.

SECTION 4. Consent and Waiver. The Noteholder, as the sole Noteholder of 100% of the Notes issued under the Indenture, hereby consents to this Amendment Number Seven, without regard to any adverse effect the substance of this Amendment Number Eight may have on the Notes, and the Noteholder waives the requirement under Section 9.02 of the Indenture that the Indenture Trustee receive an Opinion of Counsel for the benefit of the Noteholder to the effect that this Amendment Number Seven will not have a material adverse effect on the Notes. The Indenture Trustee and the Noteholder hereby waive the requirement under Section 9.02 of the Indenture that the Indenture Trustee provide the Noteholder with a notice prepared by the Issuer setting forth the substance of this Amendment Number Seven. The Owner Trustee, the Owner and the Noteholder hereby waive the requirement under Section 4.1(a)(iii) of the Trust Agreement that the Owner Trustee shall have provided thirty days' prior written notification to the Owner and the Noteholder of the substance of this Amendment Number Seven.

SECTION 5. Acknowledgement. The parties hereto acknowledge and agree that this Amendment Seven shall constitute a Supplemental Indenture within the meaning of Article IX of the Indenture.

SECTION 6. Representations. In order to induce the parties hereto to execute and deliver this Amendment, the Issuer hereby represents to the Indenture Trustee and the Noteholders that as of the date hereof, after giving effect to this Amendment, (a) all of its respective representations and warranties in the Indenture and the other Basic Documents are true and correct, and (b) it is otherwise in full compliance with all of the terms and conditions of the Indenture.

SECTION 7. Ratification; Limited Effect. Except as expressly amended hereby, the Indenture is in all respects ratified and confirmed and all the

terms, conditions and provisions thereof shall remain in full force and effect. This Amendment Number Seven shall form a part of the Indenture for all purposes, and every Holder heretofore or hereafter authenticated and delivered shall be bound hereby. The Trustee makes no representation or warranty as to the validity or sufficiency of this Amendment Number Seven. Reference to this Amendment Number Seven need not be made in the Indenture or any other instrument or document executed in connection therewith or herewith, or in any certificate, letter or communication issued or made pursuant to, or with respect to, the Indenture, any reference in any of such items to the Indenture being sufficient to refer to the Indenture as amended hereby.

SECTION 8. Fees and Expenses. The Issuer covenants to pay as and when billed by the Noteholder all of the reasonable out-of-pocket costs and expenses incurred in connection with the transactions contemplated hereby and in the other Basic Documents including, without limitation, (i) all reasonable fees, disbursements and expenses of counsel to the Initial Noteholder and (ii) all reasonable fees and expenses of the Indenture Trustee and its counsel.

SECTION 9. Governing Law. THIS AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, WITHOUT REGARD TO THE CONFLICT OF LAWS DOCTRINE APPLIED IN SUCH STATE (OTHER THAN SECTION 5-1401 OF THE NEW YORK GENERAL OBLIGATIONS LAW).

SECTION 10. Counterparts. This Amendment may be executed by each of the parties hereto on any number of separate counterparts, each of which shall be an original and all of which taken together shall constitute one and the same instrument.

SECTION 11. Limitation on Liability. It is expressly understood and agreed by the parties hereto that (a) this Amendment is executed and delivered by Wilmington Trust Company, not individually or personally, but solely as Owner Trustee of Option One Owner Trust 2001-1A in the exercise of the powers and authority conferred and vested in it, (b) each of the representations, undertakings and agreements herein made on the part of the Issuer is made and intended not as personal representations, undertakings and agreements by Wilmington Trust Company but is made and intended for the purpose for binding only the Issuer, (c) nothing herein contained shall be construed as creating any liability on Wilmington Trust Company, individually or personally, to perform any covenant either expressed or implied contained herein, all such liability, if any, being expressly waived by the parties hereto and by any Person claiming by, through or under the parties hereto and (d) under no circumstances shall Wilmington Trust Company be personally liable for the payment of any indebtedness or expenses of the Issuer or be liable for the breach or failure of any obligation, representation, warranty or covenant made or undertaken by the Issuer under this Amendment or any other related documents.

[signature page follows]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed and delivered by then duly authorized officers as of the day and year first above written

OPTION ONE OWNER TRUST 2001-1A

By: Wilmington Trust Company, not in its individual capacity but solely as Owner Trustee

By: /s/ Mary Kay Pupillo

Name: Mary Kay Pupillo
Title: Assistant Vice President

WELLS FARGO BANK, N A, as Indenture
Trustee

By: /s/ Illegible

Name:

Title:

The undersigned certifies that it is the holder of 100% of the Notes issued by
the Issuer under the Indenture, and hereby consents to this Amendment Number
Seven

GREENWICH CAPITAL FINANCIAL PRODUCTS,
INC., as Noteholder

By: /s/ Illegible

Name:

Title:

The undersigned certifies that it is the holder of 100% of Percentage Interests
in the Trust Certificate issued pursuant to the Trust Agreement, and hereby
consents to Sections 3 and 4 of this Amendment Number Seven

OPTION ONE LOAN WAREHOUSE
CORPORATION, as Loan Originator

By: /s/ Philip Laren

Name: Philip Laren

Title: Vice President

The undersigned hereby consents to Sections 3 and 4 of this Amendment Number
Seven

WILMINGTON TRUST COMPANY, not in its
individual capacity but solely as
Owner Trustee

By: /s/ Mary Kay Pupillo

Name: Mary Kay Pupillo

Title: Assistant Vice President

AMENDMENT NUMBER EIGHT
to the
AMENDED AND RESTATED INDENTURE
between
OPTION ONE OWNER TRUST 2001-1B
and
WELLS FARGO BANK, N.A.

This AMENDMENT NUMBER EIGHT (this "Amendment") is made and is effective as of this 28th day of April, 2006, between Option One Owner Trust 2001-1B (the "Issuer") and Wells Fargo Bank, N.A. (formerly known as Wells Fargo Bank Minnesota, National Association), as Indenture Trustee (the "Indenture Trustee"), to the Amended and Restated Indenture dated as of November 25, 2003 (as amended, the "Indenture"), between the Issuer and the Indenture Trustee.

RECITALS

WHEREAS, the parties hereto desire to amend the Indenture to extend the facility for an additional year and to revise certain events of default subject to the terms and conditions of this Amendment Number Eight.

WHEREAS, the Indenture Trustee (as directed by the Noteholder), the Noteholder, the Owner Trustee and the Indenture Trustee hereby waive the various notice requirements in connection with this Amendment Number Eight set forth in the Indenture and the Trust Agreement; and

NOW THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and of the mutual covenants herein contained, the parties hereto hereby agree as follows:

SECTION 1. Defined Terms. Any terms capitalized but not otherwise defined herein shall have the respective meanings set forth in the Indenture.

SECTION 2. Amendments. The Indenture is hereby amended as follows:

(a) Section 1.01 of the Indenture is hereby amended by deleting in its entirety the definition of "Maturity Date" and replacing it with the following:

"Maturity Date: means, with respect to the Notes, April 29, 2007."

(b) Section 5.01 of the Indenture is hereby amended by deleting in its entirety clause (f) and replacing it with the following new clause (f) the definition of "Maturity Date" and replacing it with the following:

(f) default by the Loan Originator in the payment of an amount in excess of \$1,000,000, if such payment default is not cured within two (2) business days of Loan Originator's knowledge of such default, that is then due and owing under any repurchase agreement, loan and security agreement or other similar credit facility agreement or derivative contract entered into by the Loan Originator and any third party for borrowed funds or with a notional amount in excess of \$30,000,000 (each such agreement, a "Material Agreement"), including any

payment default which entitles any party to require acceleration or repayment of any indebtedness thereunder;

(c) Section 5.01 of the Indenture is hereby amended by adding "; or" to the end of clause (j) in lieu of the "." and adding the following new clause (k) immediately thereafter:

(k) a material default by the Loan Originator in the observance or

performance of any covenant or agreement (other than a default specified in clause (f) above) under a Material Agreement (as defined above in clause (f)), if such default is not cured (i) within sixty (60) business days of Loan Originator's knowledge of such default, if such default involves a failure to deliver financial statements or (ii) within thirty (30) business days of Loan Originator's knowledge of such default, if such default involves an event other than a failure to deliver financial statements. For the avoidance of doubt, any default which causes any party to actually accelerate or demand repayment of any indebtedness or otherwise exercise remedies under a Material Agreement shall be an Event of Default hereunder for which no cure period shall apply; provided that such acceleration, demand or exercise of rights is continuing;

SECTION 3. Direction and Instruction.

(a) The Issuer, by signing this Amendment Number Eight, hereby directs and instructs the Indenture Trustee to enter into this Amendment Number Eight pursuant to Section 9.02 of the Indenture. The Issuer, the Owner Trustee and the Indenture Trustee hereby acknowledge and agree that the direction and instruction set forth in the previous sentence shall constitute the Issuer Order required by Section 9.02 of the Indenture. The Indenture Trustee hereby waives receipt of an Opinion of Counsel required pursuant to Section 9.03 of the Indenture.

(b) Option One Loan Warehouse Corporation, as holder of 100% Percentage Interests in the Trust Certificate issued pursuant to the Trust Agreement, hereby directs and instructs Wilmington Trust Company under the Trust Agreement to execute this Amendment Number Eight in its capacity as Owner Trustee and on behalf of the Trust, and agrees that Wilmington Trust Company is covered by the fee and indemnification provisions of the Trust Agreement in connection with this request.

SECTION 4. Consent and Waiver. The Noteholder, as the sole Noteholder of 100% of the Notes issued under the Indenture, hereby consents to this Amendment Number Eight, without regard to any adverse effect the substance of this Amendment Number Eight may have on the Notes, and the Noteholder waives the requirement under Section 9.02 of the Indenture that the Indenture Trustee receive an Opinion of Counsel for the benefit of the Noteholder to the effect that this Amendment Number Eight will not have a material adverse effect on the Notes. The Indenture Trustee and the Noteholder hereby waive the requirement under Section 9.02 of the Indenture that the Indenture Trustee provide the Noteholder with a notice prepared by the Issuer setting forth the substance of this Amendment Number Eight. The Owner Trustee, the Owner and the Noteholder hereby waive the requirement under Section 4.1(a)(iii) of the Trust Agreement that the Owner Trustee shall have provided thirty days' prior written notification to the Owner and the Noteholder of the substance of this Amendment Number Eight.

SECTION 5. Acknowledgement. The parties hereto acknowledge and agree that this Amendment Eight shall constitute a Supplemental Indenture within the meaning of Article IX of the Indenture. The parties hereto further acknowledge and agree that the Amendment Number Six to the Amended and Restated Indenture dated April 29, 2005 between the Issuer and the Indenture Trustee was inadvertently mislabeled and should have been titled "Amendment Number Seven".

SECTION 6. Representations. In order to induce the parties hereto to execute and deliver this Amendment, the Issuer hereby represents to the Indenture Trustee and the Noteholders that as of the date hereof, after giving effect to this Amendment, (a) all of its respective representations and warranties in the Indenture and the other Basic Documents are true and correct, and (b) it is otherwise in full compliance with all of the terms and conditions of the Indenture.

SECTION 7. Ratification; Limited Effect. Except as expressly amended hereby, the Indenture is in all respects ratified and confirmed and all the terms, conditions and provisions thereof shall remain in full force and effect. This Amendment Number Eight shall form a part of the Indenture for all purposes, and every Holder heretofore or hereafter authenticated and delivered shall be bound hereby. The Trustee makes no representation or warranty as to the validity or sufficiency of this Amendment Number Eight. Reference to this Amendment Number Eight need not be made in the Indenture or any other instrument or document executed in connection therewith or herewith, or in any certificate, letter or communication issued or made pursuant to, or with respect to, the Indenture, any reference in any of such items to the Indenture being sufficient to refer to the Indenture as amended hereby.

SECTION 8. Fees and Expenses. The Issuer covenants to pay as and when billed by the Noteholder all of the reasonable out-of-pocket costs and expenses incurred in connection with the transactions contemplated hereby and in the other Basic Documents including, without limitation, (i) all reasonable fees, disbursements and expenses of counsel to the Initial Noteholder and (ii) all reasonable fees and expenses of the Indenture Trustee and its counsel.

SECTION 9. Governing Law. THIS AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, WITHOUT REGARD TO THE CONFLICT OF LAWS DOCTRINE APPLIED IN SUCH STATE (OTHER THAN SECTION 5-1401 OF THE NEW YORK GENERAL OBLIGATIONS LAW).

SECTION 10. Counterparts. This Amendment may be executed by each of the parties hereto on any number of separate counterparts, each of which shall be an original and all of which taken together shall constitute one and the same instrument.

SECTION 11. Limitation on Liability. It is expressly understood and agreed by the parties hereto that (a) this Amendment is executed and delivered by Wilmington Trust Company, not individually or personally, but solely as Owner Trustee of Option One Owner Trust 2001-1B in the exercise of the powers and authority conferred and vested in it, (b) each of the representations, undertakings and agreements herein made on the part of the Issuer is made and intended not as personal representations, undertakings and agreements by Wilmington Trust Company but is made and intended for the purpose for binding only the Issuer, (c) nothing herein contained shall be construed as creating any liability on Wilmington Trust Company, individually or personally, to perform any covenant either expressed or implied contained herein, all such liability, if any, being expressly waived by the parties hereto and by any Person claiming by, through or under the parties hereto and (d) under no circumstances shall Wilmington Trust Company be personally liable for the payment of any indebtedness or expenses of the Issuer or be liable for the breach or failure of any obligation, representation, warranty or covenant made or undertaken by the Issuer under this Amendment or any other related documents.

[signature page follows]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed and delivered by their duly authorized officers as of the day and year first above written.

OPTION ONE OWNER TRUST 2001-1B

By: Wilmington Trust Company, not in its
individual capacity but solely as Owner
Trustee

By: /s/ Mary Kay Pupillo

Name: Mary Kay Pupillo
Title: Assistant Vice President

WELLS FARGO BANK, N.A., as Indenture
Trustee

By: /s/ Illegible

Name:

Title:

The undersigned certifies that it is the holder of 100% of the Notes issued by
the Issuer under the Indenture, and hereby consents to this Amendment Number
Eight

STEAMBOAT FUNDING CORPORATION, as Noteholder

By: /s/ ANDY YAN

Name: ANDY YAN
Title: VICE PRESIDENT

The undersigned certifies that it is the holder of 100% of Percentage Interests
in the Trust Certificate issued pursuant to the Trust Agreement, and hereby
consents to Sections 3 and 4 of this Amendment Number Eight:

OPTION ONE LOAN WAREHOUSE CORPORATION, as Loan Originator

By: /s/ Philip Laren

Name: Philip Laren
Title: Vice President

The undersigned hereby consents to Sections 3 and 4 of this Amendment Number
Eight:

WILMINGTON TRUST COMPANY, not in
its individual capacity but solely
as Owner Trustee

By: /s/ Mary Kay Pupillo

Name: Mary Kay Pupillo
Title: Assistant Vice President

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

	2006	2005	2004	2003	2002
Pretax income before change in accounting principle	\$ 827,393	\$1,017,715	\$1,162,975	\$ 855,564	\$709,136
FIXED CHARGES:					
Interest expense	103,810	87,924	84,556	92,644	116,141
Interest portion of net rent expense (a)	113,184	91,755	80,390	71,821	63,550
Total fixed charges	216,994	179,679	164,946	164,465	179,691
Earnings before income taxes and fixed charges	\$1,044,387	\$1,197,394	\$1,327,921	\$1,020,029	\$888,827
Ratio of earnings to fixed charges	4.8	6.7	8.1	6.2	4.9

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

SUBSIDIARIES OF H&R BLOCK, INC.

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

<u>Name</u>	<u>Jurisdiction in which organized</u>
1) H&R Block Group, Inc.	Delaware (1)
2) HRB Management, Inc.	Missouri (2)
3) H&R Block Tax and Financial Services Limited	United Kingdom (3)
4) Companion Insurance, Ltd.	Bermuda (3)
5) H&R Block Services, Inc.	Missouri (2)
6) H&R Block Tax Services, Inc.	Missouri (4)
7) HRB Partners, Inc.	Delaware (5)
8) HRB Texas Enterprises, Inc.	Missouri (5)
9) H&R Block and Associates, L.P.	Delaware (6)
10) H&R Block Canada, Inc.	Canada (5)
11) Financial Stop, Inc.	British Columbia (7)
12) H&R Block Canada Financial Services, Inc.	Canada (7)
13) H&R Block Enterprises, Inc.	Missouri (5)
14) H&R Block Eastern Enterprises, Inc.	Missouri (4)
15) The Tax Man, Inc.	Massachusetts (8)
16) HRB Royalty, Inc.	Delaware (4)
17) H&R Block Limited	New South Wales (9)
18) West Estate Investors, LLC	Missouri (10)
19) H&R Block Global Solutions (Hong Kong) Limited	Hong Kong (4)
20) Black Orchard Financial, Inc.	Delaware (4)
21) H&R Block Tax and Business Services, Inc.	Delaware (4)
22) H&R Block Tax Institute, LLC	Missouri (11)
23) Block Financial Corporation	Delaware (2)
24) Option One Mortgage Corporation	California (12)
25) Option One Mortgage Acceptance Corporation	Delaware (13)
26) Option One Mortgage Securities Corp.	Delaware (13)
27) Option One Mortgage Securities II Corp.	Delaware (13)
28) Premier Trust Deed Services, Inc.	California (13)
29) Premier Mortgage Services of Washington, Inc.	Washington (13)
30) H&R Block Mortgage Corporation	Massachusetts (13)
31) Option One Insurance Agency, Inc.	California (13)
32) Woodbridge Mortgage Acceptance Corporation	Delaware (13)
33) Option One Loan Warehouse Corporation	Delaware (13)
34) Option One Advance Corporation	Delaware (13)
35) AcuLink Mortgage Solutions, LLC	Florida (14)
36) AcuLink of Alabama, LLC	Alabama (15)
37) Option One Mortgage Corporation (India) Pvt Ltd	India (16)
38) Companion Mortgage Corporation	Delaware (12)
39) Franchise Partner, Inc.	Nevada (12)
40) HRB Financial Corporation	Michigan (12)
41) H&R Block Financial Advisors, Inc.	Michigan (17)
42) OLDE Discount of Canada	Canada (18)
43) H&R Block Insurance Agency of Massachusetts, Inc.	Massachusetts (18)

	<u>Name</u>	<u>Jurisdiction in which organized</u>
44)	HRB Property Corporation	Michigan (17)
45)	HRB Realty Corporation	Michigan (17)
46)	4230 West Green Oaks, Inc.	Michigan (19)
47)	Financial Marketing Services, Inc.	Michigan (12)
48)	2430472 Nova Scotia Co.	Nova Scotia (20)
49)	H&R Block Digital Tax Solutions, LLC	Delaware (21)
50)	TaxNet Inc.	California (22)
51)	H&R Block Bank	Federal (12)
52)	BFC Transactions, Inc.	Delaware (12)
53)	RSM McGladrey Business Services, Inc.	Delaware (2)
54)	RSM McGladrey, Inc.	Delaware (23)
55)	RSM McGladrey Financial Process Outsourcing, L.L.C.	Minnesota (25)
56)	RSM McGladrey Financial Process Outsourcing India Pvt. Ltd.	India (26)
57)	Birchtree Financial Services, Inc.	Oklahoma (24)
58)	Birchtree Insurance Agency, Inc.	Missouri (28)
59)	Pension Resources, Inc.	Illinois (24)
60)	FM Business Services, Inc.	Delaware (24)
61)	O'Rourke Career Connections, LLC	California (27)
62)	Credit Union Jobs, LLC	California (25)
63)	RSM McGladrey TBS, LLC	Delaware (25)
64)	PDI Global, Inc.	Delaware (23)
65)	RSM Equico, Inc.	Delaware (23)
66)	RSM Equico Capital Markets, LLC	Delaware (29)
67)	Equico, Inc.	California (30)
68)	Equico Europe Limited	United Kingdom (30)
69)	RSM Equico Canada, Inc.	Canada (30)
70)	RSM McGladrey Business Solutions, Inc.	Delaware (23)
71)	RSM McGladrey Insurance Services, Inc.	Delaware (23)
72)	PWR Insurance Services, Inc.	California (31)
73)	RSM McGladrey Employer Services, Inc.	Georgia (32)
74)	RSM Employer Services Agency, Inc.	Georgia (33)
75)	RSM Employer Services Agency of Florida, Inc.	Florida (33)

Notes to Subsidiaries of H&R Block, Inc.:

- (1) Wholly owned subsidiary of H&R Block, Inc.
- (2) Wholly owned subsidiary of H&R Block Group, Inc.
- (3) Wholly owned subsidiary of HRB Management, Inc.
- (4) Wholly owned subsidiary of H&R Block Services, Inc.
- (5) Wholly owned subsidiary of H&R Block Tax Services, Inc.
- (6) Limited partnership in which HRB Texas Enterprises, Inc. is a 1% general partner and HRB Partners, Inc. is a 99% limited partner
- (7) Wholly owned subsidiary of H&R Block Canada, Inc.
- (8) Wholly owned subsidiary of H&R Block Eastern Enterprises, Inc.
- (9) Wholly owned subsidiary of HRB Royalty, Inc.
- (10) Limited liability company in which H&R Block Tax Services, Inc. has a 100% membership interest.
- (11) Limited liability company in which H&R Block Services, Inc. has a 100% membership interest.
- (12) Wholly owned subsidiary of Block Financial Corporation
- (13) Wholly owned subsidiary of Option One Mortgage Corporation
- (14) Limited liability company in which Option One Mortgage Corporation has a 100% membership interest.
- (15) Limited liability company in which AcuLink Mortgage Solutions, LLC has a 100% membership interest.
- (16) Company in which Option One Mortgage Corporation owns 90% and Option One Insurance Agency, Inc. owns 10% of the issued and outstanding stock.
- (17) Wholly owned subsidiary of HRB Financial Corporation
- (18) Wholly owned subsidiary of H&R Block Financial Advisors, Inc.
- (19) Wholly owned subsidiary of HRB Realty Corporation
- (20) Wholly owned subsidiary of Financial Marketing Services, Inc.
- (21) Limited liability company in which Block Financial Corporation has a 100% membership interest.
- (22) Wholly owned subsidiary of H&R Block Digital Tax Solutions, LLC.
- (23) Wholly owned subsidiary of RSM McGladrey Business Services, Inc.
- (24) Wholly owned subsidiary of RSM McGladrey, Inc.
- (25) Limited liability company in which RSM McGladrey, Inc. has a 100% membership interest.
- (26) Company in which RSM McGladrey Financial Process Outsourcing, LLC owns 70% of the issued and outstanding stock.
- (27) Limited liability company in which RSM McGladrey, Inc. owns a 50% membership interest and the California Credit Union League owns a 50% membership interest
- (28) Wholly owned subsidiary of Birchtree Financial Services, Inc.
- (29) Limited liability company in which RSM Equico, Inc. has a 100% membership interest.
- (30) Wholly owned subsidiary of RSM Equico, Inc.
- (31) Wholly owned subsidiary of RSM McGladrey Insurance Services, Inc.
- (32) Company in which RSM McGladrey Business Services, Inc. owns approximately 87% of the issued and outstanding stock.
- (33) Wholly owned subsidiary of RSM McGladrey Employer Services, Inc.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of H&R Block, Inc.:

We consent to the incorporation by reference in the registration statements on Form S-3 (Nos. 333-33655 and 333-118020) of Block Financial Corporation and in the registration statements on Form S-3 (No. 333-33655-01) and Form S-8 (Nos. 333-119070, 333-42143, 333-42736, 333-42738, 333-42740, 333-56400, 333-70400, 333-70402, and 333-106710) of H&R Block, Inc. (the Company) of our reports dated June 29, 2006, with respect to the consolidated balance sheets of H&R Block, Inc. and its subsidiaries as of April 30, 2006 and 2005, and the related consolidated statements of income and comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended April 30, 2006 and the related financial statement schedule, management's assessment of the effectiveness of internal control over financial reporting as of April 30, 2006 and the effectiveness of internal control over financial reporting as of April 30, 2006, which reports appear in the April 30, 2006 annual report on Form 10-K of H&R Block, Inc.

Our report dated June 29, 2006, on the consolidated financial statements contains an explanatory paragraph stating that, as discussed in note 1 to the consolidated financial statements, the Company changed its method of accounting to adopt Emerging Issues Task Force Issue No. 00-21, Revenue Arrangements with Multiple Deliverables, during the year ended April 30, 2004.

/s/ KPMG LLP

Kansas City, Missouri
June 29, 2006

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

I, Mark A. Ernst, Chief Executive Officer, certify that:

1. I have reviewed this annual report on Form 10-K of H&R Block, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting 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: June 30, 2006

/s/ Mark A. Ernst

Mark A. Ernst

Chief Executive Officer
H&R Block, Inc.

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

I, William L. Trubeck, Chief Financial Officer, certify that:

1. I have reviewed this annual report on Form 10-K of H&R Block, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting 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: June 30, 2006

/s/ William L. Trubeck

William L. Trubeck

Executive Vice President and
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 annual report of H&R Block, Inc. (the "Company") on Form 10-K for the fiscal year ending April 30, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Mark A. Ernst, Chief Executive Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 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/ Mark A. Ernst

Mark A. Ernst
Chief Executive Officer
H&R Block, Inc.
June 30, 2006

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

In connection with the annual report of H&R Block, Inc. (the "Company") on Form 10-K for the fiscal year ending April 30, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, William L. Trubeck, Executive Vice President and Chief Financial Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/ William L. Trubeck

William L. Trubeck
Executive Vice President and
Chief Financial Officer
H&R Block, Inc.
June 30, 2006