Table of Contents

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, 2007

OR

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

For the transition period from _____ to _____

Commission File Number: 1-6089

H&R Block, Inc.

(Exact name of registrant as specified in its charter)

MISSOURI	**44-0607856**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

One H&R Block Way, Kansas City, Missouri 64105
(Address of principal executive offices, including zip code)

(816) 854-3000
(Registrant's telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

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

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

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes o 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 o

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. o

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 o Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o 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, 2006, was $7,009,044,680.

Number of shares of registrant's Common Stock, without par value, outstanding on May 31, 2007: 323,406,988.

Documents incorporated by reference

The definitive proxy statement relating to the registrant's Annual Meeting of Shareholders, to be held September 6, 2007, is incorporated by reference in Part III to the extent described therein.

2007 FORM 10-K AND ANNUAL REPORT
TABLE OF CONTENTS

INTRODUCTION AND FORWARD LOOKING STATEMENTS

Specified portions of our proxy statement, which will be filed in July 2007, 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 2007 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, Inc. is a financial services company with subsidiaries providing tax, investment, mortgage, and accounting and business consulting 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, Canada and Australia. Our Business Services segment is a national accounting, tax and business consulting firm primarily serving mid-sized businesses under the RSM McGladrey name. Our Consumer Financial Services segment offers brokerage services, along with investment planning and related financial advice through H&R Block Financial Advisors and full-service banking through H&R Block Bank. Our mortgage operations offer a full range of home mortgage services through Option One Mortgage Corporation and H&R Block Mortgage Corporation. See additional discussion of our plans to dispose of our mortgage operations in "Recent Developments."

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. A complete list of our subsidiaries can be found in Exhibit 21.

RECENT DEVELOPMENTS – H&R Block Bank (HRB Bank) commenced operations on May 1, 2006, at which time H&R Block, Inc. became a savings and loan holding company. At that time, we also realigned certain segments of our business to reflect a new management reporting structure. The previously reported Investment Services segment and HRB Bank have been combined in the Consumer Financial Services segment. See "Description of Business" for additional information on this new segment.

Conditions in the non-prime mortgage industry were challenging throughout fiscal year 2007, and particularly in our fourth quarter. Our mortgage operations, as well as the entire industry, were impacted by deteriorating conditions in the secondary market, where reduced investor demand for loan purchases, higher investor yield requirements and increased estimates for future losses reduced the value of non-prime loans. Under these conditions non-prime originators generally reported significant increases in losses and many were unable to meet their financial obligations. During the fourth quarter we tightened our underwriting standards, which had the effect of reducing our loan origination volumes, but we expect will result in the origination of higher quality loans with better pricing in the secondary markets.

Our discontinued operations reported a pretax loss of $1.2 billion, which includes losses of $50.2 million from our Business Services and Tax Services discontinued operations, with the remainder from our mortgage business. The results of our mortgage operations include $388.7 million in loss provisions and repurchase reserves, impairments of residual interests of $168.9 million and impairments of other assets totaling $345.8 million.

If conditions in the industry, particularly in home appreciation, continue to decline, our future results would continue to be negatively impacted. See additional discussion of the performance of our mortgage operations in Item 7, under "Discontinued Operations."

DISCONTINUED OPERATIONS. On November 6, 2006 we announced we would evaluate strategic alternatives for Option One Mortgage Corporation (OOMC), including a possible sale or other transaction through the public markets. On April 19, 2007, we entered into an agreement to sell OOMC for cash consideration approximately equal to the fair value of the adjusted tangible net assets of OOMC (as defined by the agreement) at closing less $300.0 million. The agreement provides for us to receive one-half of OOMC's cumulative net income from its origination business for the 18 months following the closing, up to a maximum of $300.0 million, but no less than zero. The OOMC agreement is subject to various closing conditions and may be terminated by either party if the transaction does not close by December 31, 2007. In conjunction with this plan, we also announced we would terminate the operations of H&R Block Mortgage Corporation (HRBMC). We recorded impairments relating to the disposition of our mortgage businesses during the fourth quarter of fiscal year 2007 of $345.8 million, including the full impairment of goodwill of $152.5 million. Because the final sale price will be based on third-party bids and valuations received at closing, and because market conditions may change significantly during the period prior to closing, the value of the adjusted tangible net assets of the business at closing may be significantly different than the value as of April 30, 2007. Any such changes could impact the final impairment amount recorded at closing. We expect the sale of OOMC to close during the second quarter of fiscal year 2008. See discussion of additional conditions of the sale in Item 1A, under "Potential Sale Transaction."

During fiscal year 2007, we committed to a plan to sell and/or completed the wind-down of three smaller lines of business previously reported in our Business Services segment, as well as our tax operations in the United Kingdom previously reported in Tax Services. We recorded an additional impairment of $5.0 million related to these businesses.

During fiscal year 2007, we met the criteria requiring us to present the related financial results of these businesses as discontinued operations and the assets and liabilities of all of the businesses being sold as held-for-sale in the consolidated financial statements. All periods presented have been reclassified to reflect our discontinued operations.

FINANCIAL INFORMATION ABOUT INDUSTRY SEGMENTS –

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

DESCRIPTION OF BUSINESS –

TAX SERVICES

GENERAL – Our Tax Services segment is primarily engaged in providing tax return preparation and related services and products in the United States and its territories, Canada and Australia. 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) and Instant Money Advance Loans (IMALs). Segment revenues constituted 66.8% of our consolidated revenues of continuing operations for fiscal year 2007, 68.5% for 2006, and 74.9% for 2005.

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.

We also offer our clients 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 primarily 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 in "Loan 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.

IMALs – IMALs are early-season loans offered to U.S. clients, beginning in November 2006, allowing them to take out a loan from HSBC in amounts up to $2,500 based upon their anticipated federal income tax refund. See related discussion in "Loan Participations" below.

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

EASY SAVINGS, EASY IRA – Traditional savings and individual retirement accounts insured by the Federal Deposit Insurance Corporation (FDIC) are offered to U.S. clients as savings and tax-advantaged retirement savings tools. The accounts are held at HRB Bank.

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 WILLPower℠ 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.

During fiscal year 2007, we acquired TaxWorks LLC and its affiliated entities, a provider of commercial tax preparation software targeting the independent tax preparer market. The primary software product, TaxWorks®, is designed for small to mid-sized CPA firms that file taxes for individuals and businesses. The initial cash purchase price was $24.8 million, with a payment of $10.0 million due in May 2007 and a payment of $23.6 million due in May 2012. The $10.0 million payment due in May 2007 was paid on April 30, 2007. See Item 8, note 2 to our consolidated financial statements.

ONLINE TAX PREPARATION – We offer a comprehensive range of tax services, from tax advice to complete professional and do-it-yourself tax return preparation and electronic filing, through our websites at *www.hrblock.com, www.taxcut.com, www.taxnet.com* and *www.taxengine.com*. These websites allow clients to prepare their federal and state income tax returns using the TaxCut Online Tax Program and other platforms, access tax tips, advice and tax-related news and use calculators for tax planning.

We participate in the Free File Alliance (FFA). This alliance was created by the tax return preparation industry and the IRS, and allows qualified filers with adjusted gross incomes less than $52,000 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 2007 was approximately 670,000, compared to 653,000 in 2006 and 581,000 in 2005.

CLIENTS SERVED – We, together with our franchisees, served approximately 22.9 million clients worldwide during fiscal year 2007, up from 21.9 million in 2006 and 21.4 million in 2005. See discussion of the Canadian tax season extension under "Seasonality of Business." We served 20.3 million clients in the U.S. during fiscal year 2007, up from 19.5 million in 2006 and 19.1 million in 2005. "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, taxpayers for whom we provided only paid electronic filing services and clients who received IMALs but did not return for tax preparation and/or e-filing services. Our U.S. clients served constituted 16.1% of an IRS estimate of total individual income tax returns filed as of April 30, 2007, compared to 15.7% in 2006 and 15.6% in 2005.

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

April 30,	**2007**	2006	2005
U.S. OFFICES –			
Company-owned offices	**6,669**	6,387	5,811
Company-owned shared locations (1)	**1,488**	1,473	1,296
Total company-owned offices	**8,157**	7,860	7,107
Franchise offices	**3,784**	3,703	3,528
Franchise shared locations (1)	**843**	602	526
Total franchise offices	**4,627**	4,305	4,054
	12,784	12,165	11,161
INTERNATIONAL OFFICES –			
Canada	**1,070**	1,011	912
Australia	**360**	362	378
Other	**—**	10	10
	1,430	1,383	1,300

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

Offices in shared locations at April 30, 2007 include 1,146 offices operated in Wal-Mart stores and 760 offices in Sears stores operated as "H&R Block at Sears." The Wal-Mart agreement expires in May 2007 and is in the process of being renegotiated. The Sears license agreement was renewed in June 2007 and expires in July 2010. The Sears agreement is subject to standard termination rights by either party which include change in control, bankruptcy, material misuse of intellectual property, unauthorized disclosure of confidential information, failure to pay required fees, failure to comply with the agreement, or failure to carry required insurance by the other party.

We offer franchises as a way to expand our presence in the market. Our franchise arrangements provide us with certain rights 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 2007, we acquired ExpressTax, a national franchisor of tax preparation businesses, for an aggregate cash purchase price of $5.7 million. This acquisition added 249 offices to our network, which continue to operate under the ExpressTax name.

LOAN PARTICIPATIONS – Since July 1996, we have been a party to agreements with HSBC and its predecessors to participate in RALs provided by a lending bank to H&R Block tax clients. 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 prior year in connection with this agreement, which was recorded as deferred revenue and is earned over the contract term. The new agreement is effective 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 participation 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 $192.4 million, $177.9 million and $182.8 million in fiscal years 2007, 2006 and 2005, respectively.

During the current year, our RAL contract was amended to include participation in IMALs. We obtained the right to purchase a 75.0% participation interest in IMALs obtained through our retail offices in 22 states. Our IMAL participation revenue was $17.6 million in fiscal year 2007. While this amendment is also effective through 2011, HSBC has elected not to offer these early-season loans next year.

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. 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 fiscal year 2006, 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 were recognized in fiscal year 2007. In fiscal year 2005, 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. In fiscal year 2007, the Canadian tax season ended April 30, 2007.

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, RAL and IMAL services to the public. Commercial tax return preparers and electronic filers are highly competitive with regard to price and service. 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 largest 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 recent years.

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

The federal government regulates the electronic filing of income tax returns in part by requiring electronic filers to comply with all publications and notices of the IRS applicable to electronic filing. We are also required to provide certain electronic filing 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.

The Gramm-Leach-Bliley Act and Federal Trade Commission (FTC) 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.

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.

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

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. Our franchising activities are subject to the rules and regulations of the FTC, and various state laws regulating the offer and sale of franchises. The FTC and various state laws require that we furnish to prospective franchisees a franchise offering circular containing prescribed information. A number of states in which we are currently franchising regulate the sale of franchises and require registration of the franchise offering circular with state authorities and the delivery of a franchise offering circular to prospective franchisees. We are currently operating under exemptions from registration in several of these states based upon our net worth and experience. Substantive state laws regulating the franchisor/franchisee relationship presently exist in a substantial number of states, and bills have been introduced in Congress from time to time that would provide for federal regulation of the franchisor/franchisee relationship in certain respects. The state laws often limit, among other things, the duration and scope of non-competition provisions, the ability of a

franchisor to terminate or refuse to renew a franchise and the ability of a franchisor to designate sources of supply. From time to time, we may have to make appropriate amendments to our franchise offering circular used to comply with our disclosure obligations under federal and state law.

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

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

BUSINESS SERVICES

GENERAL – Our Business Services segment offers middle-market companies accounting, tax and business consulting services, wealth management and capital markets services. Segment revenues constituted 23.2% of our consolidated revenues of continuing operations for fiscal years 2007 and 2006 and 17.4% for 2005.

This segment consists primarily of RSM McGladrey, Inc. (RSM), which provides accounting, tax, and business consulting services in 97 cities in 25 states and offers services in 18 of the top 25 U.S. markets.

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. (AmexTBS), which has been merged into RSM. During fiscal year 2007, we finalized purchase price adjustments relating to this acquisition resulting in a $10.1 million reduction in purchase price, which was recorded primarily as a reduction of goodwill.

During fiscal year 2007, we committed to a plan to sell and/or completed the wind-down of three smaller lines of business. As of April 30, 2007, we met the criteria requiring us to present the related financial results of these businesses as discontinued operations and the assets and liabilities of all of the businesses being sold as held-for-sale in the consolidated financial statements for all periods presented. See additional discussion in Item 8, note 20 to our consolidated financial statements.

RELATIONSHIP WITH ATTEST FIRMS – By regulation, we cannot provide audit and attest services. McGladrey & Pullen LLP (M&P) and other public accounting firms, including those public accounting firms previously associated with AmexTBS, 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.

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 previously in 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.

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 us 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).

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

CONSUMER FINANCIAL SERVICES

GENERAL – Our Consumer Financial Services segment is primarily engaged in offering brokerage services, along with investment planning and related financial advice through H&R Block Financial Advisors, Inc. (HRBFA) and full-service banking through HRB Bank. HRBFA and HRB Bank, our "Block-branded" businesses, are focused on increasing retail tax client loyalty and retention by offering expanded financial services. Segment revenues constituted 9.7% of our consolidated revenues of continuing operations for fiscal year 2007, 8.1% for 2006 and 7.6% for 2005.

H&R BLOCK FINANCIAL ADVISORS - HRBFA offers our clients 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 to clients in the U.S.

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 adviser. 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.

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 2007, we operated 195 branch offices, compared to 219 offices in 2006 and 257 in 2005. The reduced number of branch offices is primarily due to the consolidation of smaller branches and the evolution of our tax-partnering program, in which financial advisors are located in retail tax offices.

FINANCIAL ADVISORS. Our future success is highly dependent on retaining and recruiting productive financial advisors. One of our key initiatives in fiscal year 2007 was to build revenues by attracting and retaining higher-producing advisors.

During fiscal years 2007, 2006 and 2005, we added 97, 193 and 258 advisors, respectively. These additions were offset by attrition, which caused our number of advisors to decline from 1,010 at April 30, 2006 to 918 at April 30, 2007. Our overall retention rate for fiscal year 2007 was approximately 80%, up from 75% last year. The retention rate for our higher-producing advisors was approximately 92%, up from 91% in 2006. The implementation of minimum production requirements caused our overall advisor retention rate to lag our higher-producing advisor retention rate. Advisor productivity by recruiting class is as follows:

		(in 000s)
	Revenue Per Advisor	Total Production Revenues
FISCAL YEAR 2007 –		
Pre-2005 class	**$ 257**	**$ 150,612**
2005 recruits	**145**	**16,040**
2006 recruits	**154**	**26,331**
2007 recruits	**121**	**6,690**
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

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 Program℠ 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 financial advisors.

As of April 30, 2007, our Preferred Partner Program had 8,297 active tax partners, of which 612 were licensed. As a result of this initiative, we added more than 13,900 new customer accounts and assets totaling $690 million during fiscal year 2007. We expect to continue to increase the number of tax partners in the coming year.

H&R BLOCK BANK – In March 2006, the Office of Thrift Supervision (OTS) approved the charter of HRB Bank. HRB Bank commenced operations on May 1, 2006 and offers traditional consumer banking services including checking and savings accounts, home equity lines of credit, individual retirement accounts, certificates of deposit and prepaid debit card accounts to clients in the U.S. HRBFA utilizes HRB Bank for certain FDIC-insured deposits for its customers and HRB Bank also purchases loans from OOMC, HRBMC and other lenders to hold for investment purposes. In the event that, as a result of the sale of OOMC, HRB Bank can no longer purchase loans from OOMC and HRBMC, the main source of future loan purchases would be third-party loan originators.

The information required by the SEC's Industry Guide 3, "Statistical Disclosure by Bank Holding Companies" is included in Item 7.

SEASONALITY OF BUSINESS – HRB Bank's deposit balances can be subject to some seasonal fluctuations related to deposits of Tax Services' clients, including the H&R Block Prepaid Emerald MasterCard®, which peak in February and taper off through the remainder of the tax season.

HRBFA does not experience significant seasonal fluctuations. Financial services businesses are cyclical, however, and directly affected by national and global economic and political conditions, trends in business and finance and changes in interest rates and the conditions of the securities markets in which our clients invest.

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. 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.

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.

GOVERNMENT REGULATION – Financial services businesses are subject to extensive regulation by U.S. federal and state regulatory agencies, securities exchanges and by various non- governmental agencies, regulatory bodies and central banks. These regulatory agencies in the U. S. include, among others, the SEC, the NASD, the NYSE, the FDIC, the Federal Reserve, the Municipal Securities Rulemaking Board and the OTS. Additional legislation, regulations and rulemaking may directly affect our manner of operation and profitability.

HRBFA is registered with the SEC and subject to regulation by the SEC and by self-regulatory organizations, such as the NYSE, NASD and the securities exchanges of which it is a member. As a registered broker-dealer, HRBFA is subject to the Uniform Net Capital Rule (Rule 15c3-1) administered by the SEC, which specifies minimum net capital requirements for registered brokers and dealers.

HRB Bank is subject to regulation, supervision and examination by the OTS, the Federal Reserve and the FDIC. All savings associations are subject to the capital adequacy guidelines and the regulatory framework for prompt corrective action. HRB Bank must meet specific capital guidelines that involve quantitative measures of HRB Bank's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. HRB Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. As a savings and loan holding company, H&R Block, Inc. is subject to regulation by the OTS, including maintenance of a three percent minimum ratio of adjusted tangible capital to adjusted total assets, as defined by the OTS.

See Item 7, “Regulatory Environment” and Item 8, note 17 to the consolidated financial statements for additional discussion of regulatory requirements, including discussion of our non-compliance with the three percent minimum capital requirement as of January 31, 2007 and April 30, 2007.

Also see discussion in 1A, “Risk Factors” for additional information.

DISCONTINUED OPERATIONS

GENERAL – Conditions in the non-prime mortgage industry were challenging throughout fiscal year 2007, and particularly in our fourth quarter. Our mortgage operations, as well as the entire industry, were impacted by deteriorating conditions in the secondary market, where reduced investor demand for loan purchases, higher investor yield requirements and increased estimates for future losses reduced the value of non-prime loans. Under these conditions non-prime originators generally reported significant increases in losses and many were unable to meet their financial obligations. As a result, during our fourth quarter our mortgage operations originated mortgage loans that, by the time we sold them in the secondary market, were valued at less than par. Conditions in the non-prime mortgage industry resulted in significant losses in our mortgage operations during the fourth quarter of fiscal year 2007. See additional discussion of the performance of our mortgage operations in Item 7, under “Discontinued Operations.”

On November 6, 2006 we announced we would evaluate strategic alternatives for OOMC, including a possible sale or other transaction through the public markets. On April 19, 2007, we entered into an agreement to sell OOMC. In conjunction with this plan, we also announced we would terminate the operations of HRBMC.

During fiscal year 2007, we committed to a plan to sell and/or completed the wind-down of three smaller lines of business previously reported in our Business Services segment, as well as our tax operations in the United Kingdom previously reported in Tax Services.

During fiscal year 2007, we met the criteria requiring us to present the related financial results of these businesses as discontinued operations and the assets and liabilities of all of the businesses being sold as held-for-sale in the consolidated financial statements for all periods presented. See Item 1A and Item 8, note 20 to our consolidated financial statements for additional information and discussion of the sale of OOMC and impairments we recorded relating to the disposition of these businesses.

MORTGAGE OPERATIONS

OOMC originates and services non-prime mortgage loans and sells and securitizes non-prime mortgage loans and residual interests in the United States. HRBMC, a wholly-owned subsidiary of OOMC, originates non-prime and prime mortgage loans for sale to OOMC, HRB Bank or third-party buyers. Revenues primarily consist of gains from sales and securitizations of mortgage assets, net of repurchase provisions, derivative gains and losses, and impairments of residual interests, interest income and servicing fee income.

OOMC originates non-prime mortgage loans, which 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 generally have equity in their property that will be used to secure the loan. OOMC’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 OOMC’s total loan production.

OOMC is headquartered in Irvine, California and operates in 49 states by serving 52,000 mortgage broker locations and through its network of 22 wholesale loan production branches and its relationship with HRBMC.

HRBMC 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 500 employees and closed 17 of our branch offices through a restructuring. This resulted in a pretax charge of $21.5 million. In the prior 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. We expect these restructuring activities will continue until the sale of our mortgage operations, including the closure of additional branch locations

and the operations of the bulk acquisitions channel. We filed a Form 8-K on May 17, 2007, related to restructuring activities during fiscal year 2008, which includes the termination of approximately 615 employees. Pretax charges are estimated to be approximately $19.0 million in fiscal year 2008. These restructuring activities are part of our strategy to consolidate our origination processes and reduce overall costs. See additional discussion of our restructuring charge in Item 8, note 20 to the consolidated financial statements.

LOAN ORIGINATION – We originated $27.1 billion, $40.8 billion and $31.0 billion in mortgage loans during fiscal years 2007, 2006 and 2005, respectively. Information regarding our non-prime loan originations is as follows:

Year Ended April 30,	**2007**	2006	2005
Loan type:			
2-year ARM	**34.8%**	43.9%	61.6%
3-year ARM	**1.2%**	1.9%	4.0%
Fixed 1st	**14.2%**	12.7%	17.7%
Fixed 2nd	**2.4%**	4.9%	3.8%
Interest only 1st	**12.2%**	21.1%	12.6%
40-Year	**32.9%**	13.4%	—%
Other	**2.3%**	2.2%	0.3%
Percentage of fixed-rate mortgages	**21.6%**	20.0%	22.1%
Percentage of adjustable-rate mortgages	**78.4%**	80.0%	77.9%
Percentage of first mortgage loans owner-occupied	**91.1%**	91.7%	92.6%
Loan purpose:			
Cash-out refinance	**64.0%**	60.2%	63.5%
Purchase	**30.5%**	35.0%	30.8%
Rate or term refinance	**5.5%**	4.8%	5.7%
Borrower documentation level:			
Full documentation	**53.1%**	54.9%	60.1%
Stated income	**36.9%**	41.3%	38.1%
Other	**10.0%**	3.8%	1.8%

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 also originate stated income loans where income verification may not be obtained. 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 1.2% 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 2007, 58% of HRBMC's originations were non-prime and 42% were prime, compared to 69% and 31%, respectively, in 2006. During fiscal year 2007, approximately 24% of HRBMC's loans were made to existing H&R Block clients compared to 20% in 2006.

The application and approval process in our retail locations is similar to those described previously under "Wholesale." HRBMC's non-prime mortgage loans are primarily sold to OOMC. Substantially all of HRBMC's 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. See discussion of our prime warehouse line in Item 7, under "Capital Resources and Liquidity."

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."

Loans meeting certain specified criteria are sold to HRB Bank, which holds the loans for investment purposes.

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 primarily service non-prime mortgage loans. At the end of fiscal year 2007, we serviced 384,156 loans totaling $67.0 billion, compared to 441,981 loans totaling $73.4 billion at April

30, 2006 and 435,290 loans totaling $68.0 billion at April 30, 2005.

The following table summarizes our servicing portfolio by origin and includes related mortgage servicing rights (MSRs) as of April 30, 2007 and the rate we earned on each type of servicing during fiscal year 2007:

(dollars in 000s)

Type of Servicing	Principal Balance	MSR Balance	Base Rate Earned
Originated	**$ 63,868,068**	**$ 253,067**	**0. 39%**
Sub-servicing	**3,069,073**	**—**	**0. 22%**
Purchased	**59,908**	**—**	**0. 50%**
Total	**$ 66,997,049**	**$ 253,067**	**0. 37%**

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 7, "Critical Accounting Policies" and 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 2007 and 2006:

	2007		2006	
State	Percent of Volume	Number of Branches	Percent of Volume	Number of Branches
California	**23.5%**	**4**	24.5%	6
Florida	**11.0%**	**3**	10.7%	3
New York	**9.2%**	**1**	9.1%	2
Texas	**6.4%**	**2**	4.6%	3
Massachusetts	**5.0%**	**1**	6.7%	2
New Jersey	**4.9%**	**1**	5.1%	1
Other	**40.0%**	**10**	39.3%	17

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.

COMPETITIVE CONDITIONS – The non-prime residential mortgage loan market is highly competitive. 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. During fiscal year 2007, the declining performance of non-prime originations, including early payment defaults by borrowers, caused a significant increase in losses, primarily related to loan repurchase obligations and decreases in secondary market pricing in the industry. Unable to meet these financial obligations, many originators entered bankruptcy or otherwise ceased non-prime lending operations during the year. Many of the remaining competitors are well-capitalized companies that compete vigorously on price, service and product differentiation.

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 OOMC as the number four originator, based on market share as of March 31, 2007, and the number four servicer, based on servicing volume as of March 31, 2007, of non-prime loans in the industry.

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.

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. Other

proposed non-prime lending rules being discussed may require lenders to qualify borrowers at the fully-indexed interest rate, which may cause some borrowers to no longer qualify for certain loans products.

In September 2006, the federal financial regulatory agencies (The Board of Governors of the Federal Reserve System, the Office of Comptroller of the Currency, the OTS, the National Credit Union Administration, and the Federal Deposit Insurance Corporation) jointly issued *Interagency Guidance on Nontraditional Mortgage Product Risks* (the "Guidance") to address risks posed by interest-only loans and other mortgage products that allow borrowers to defer repayment of principal or interest. The Guidance also addresses the layering of risks that results from combining these product types with other features that may compound risk, such as relying on reduced documentation to evaluate a borrower's creditworthiness. The Guidance directs federally regulated financial institutions originating these loans to maintain underwriting standards that are consistent with prudent lending practices, including analysis of a borrower's capacity to repay the full amount of credit that may be extended and to provide borrowers with clear and balanced information about the relative benefits and risks of these products sufficiently early in the process to enable them to make informed decisions. While not directly applicable to us, the Guidance may affect our ability to make or sell the nontraditional loans covered by the Guidance. Additionally, the Guidance is instructive of the regulatory climate concerning those loans and may be adopted in whole or in part by other agencies that regulate us. It is also possible that the Guidance may be adopted as laws or used as guidance by federal, state or local agencies and that those laws or guidance may be applied to us. Since its issuance, over 30 states have mirrored the Guidance which now places OOMC under additional regulation by these states.

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. 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. In September 2003, the OTS released a new rule that reduced the scope of the Alternative Mortgage Transactions 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. 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 may be able to offer loans with interest rate and loan fee structures that are more attractive than those we offer.

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

SERVICE MARKS, TRADEMARKS AND PATENTS –

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

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

EMPLOYEES –

We have approximately 15,000 regular full-time employees. The highest number of persons we employed during the fiscal year ended April 30, 2007, including seasonal employees, was approximately 136,600.

AVAILABILITY OF REPORTS AND OTHER INFORMATION –

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

reasonably practicable after such reports are electronically filed with or furnished to the SEC. The public may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains a website at *ww.sec.gov* that contains reports, proxy and information statements and other information regarding issuers that file electronically with 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., One H&R Block Way, Kansas City, Missouri 64105.

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

ITEM 1A. RISK FACTORS

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 also dependent on commercial paper issuances and/or lines of credit 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 POM guarantee program, electronic filing of tax returns, Express IRAs, losses incurred by customers in their investment accounts, mortgage lending activities, business valuation services 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 – Privacy concerns relating to the disclosure of consumer financial information have drawn increased attention from federal and state governments. The IRS generally prohibits the use or disclosure by tax return preparers of taxpayers' information without the prior written consent of the taxpayer. In addition, other regulations require financial service providers to adopt and disclose consumer privacy policies and provide consumers with a reasonable opportunity to opt-out of having personal information disclosed to unaffiliated third parties for marketing purposes. Although we have established security procedures to protect against identity theft, breaches of our clients' privacy may occur. To the extent the measures we have taken prove to be insufficient or inadequate, we may become subject to litigation or administrative sanctions, which could result in significant fines, penalties or damages and harm to our brand and reputation.

In addition, changes in these federal and state regulatory requirements could result in more stringent requirements and could result in a need to change business practices, including how information is disclosed. These changes could have a material adverse effect on our business, financial condition and results of operations, and our ability to access the capital markets.

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 our internal controls from our Independent Registered Public Accounting Firm. 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.

POTENTIAL SALE TRANSACTION – On April 19, 2007, we entered into an agreement to sell OOMC. The purchase price to be received in connection with the sale of OOMC will consist of payments based on the fair value of the adjusted tangible net assets of OOMC (as defined in the agreement) as of the date of sale less $300.0 million. Because the final sale price will be based on third-party bids and valuations received at closing as well as the ultimate value received upon disposition of certain assets after closing, and because market conditions have changed and may change significantly during the period prior to closing, the value of the adjusted tangible net assets of the business at closing may be significantly different than the value as of April 30, 2007. In addition, the transaction is subject to various closing conditions, including that (1) OOMC maintain at least $8.0 billion of total capacity in its warehouse facilities throughout the period to the closing date (of which at least $2.0 billion is to be in the form of unused capacity at the closing date), (2) OOMC have servicer ratings of at least RPS2 by Fitch, SQ2 by Moody's and Above Average by S&P, and (3) agreed upon regulatory and other approvals and consents be obtained. See discussion of warehouse facilities and related waivers in Item 7 under "Off-Balance Sheet Financing Arrangements." If the closing conditions are not satisfied by the requisite time, the sale could be terminated. Failure to complete this transaction could adversely affect the market price of our stock. If conditions in the non-prime mortgage industry, particularly in home appreciation, continue to decline, our operating results, capital levels and liquidity could be negatively impacted during the periods we continue to own OOMC.

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. Third-party financial institutions currently originating RALs and similar products could decide to cease or significantly limit such offerings and related collection practices. 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."

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. We may extend this agreement for two successive one-year periods. 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.

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 directly to the RAL program (including revenues from participation interests) were $193.5 million for the year ended April 30, 2007, representing 4.8% of consolidated revenues and contributed $120.5 million to the segment's pretax results. Revenues related directly to the RAL program totaled $179.3 million for the year ended April 30, 2006, representing 5.0% of consolidated revenues and contributed $106.5 million to the segment's pretax results.

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, 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.

CONSUMER FINANCIAL SERVICES

REGULATORY ENVIRONMENT – GENERAL – The securities and banking industries are subject to extensive regulation. The SEC, the NYSE, the NASD and other self-regulatory organizations and state securities commissions can, among other things, censure, fine, issue cease-and-desist orders or suspend or expel a broker-dealer or any of its officers or employees. The OTS may take similar action with respect to our banking activities. Similarly, the attorneys general of each state could bring legal action on behalf of the citizens of the various states to ensure compliance with local laws.

REGULATORY ENVIRONMENT – BROKER-DEALER – HRBFA must comply with many laws and rules, including rules relating to possession and control of customer funds and securities, margin lending and execution and settlement of transactions.

The SEC, NYSE and NASD and various other regulatory agencies have stringent rules with respect to the maintenance of specific levels of net capital by securities broker-dealers. Net capital is the net worth of a broker or dealer (assets minus liabilities), less deductions for certain types of assets. Failure to maintain the required net capital could result in suspension or revocation of registration by the SEC and suspension or expulsion by the NYSE and/or NASD, and could ultimately lead to the firm's liquidation.

HRBFA will be transitioning individual clients in certain fee-in-lieu-of-commission accounts to a commission-based or alternative brokerage account, or to investment adviser accounts as a result of recent court actions on an SEC rule. As of April 30, 2007, HRBFA had approximately $2.9 billion of assets under management and realized approximately $24.0 million in revenue from these accounts for fiscal year 2007. During the process of converting these accounts, we are exposed to risk in advisor and client retention, product pricing and related production revenues.

REGULATORY ENVIRONMENT – BANKING – H&R Block, Inc., as a savings and loan holding company, and HRB Bank, as a federally chartered savings bank, are subject to extensive regulation, supervision and examination by the OTS and FDIC. Such regulation covers all banking business, including lending practices, safeguarding deposits, capital structure, recordkeeping, transactions with affiliates and conduct and qualifications of personnel.

HRB Bank is subject to various regulatory capital requirements administered by the OTS. Failure to meet minimum capital requirements may trigger actions by regulators that, if undertaken, could have a direct material effect on HRB Bank and our consolidated financial statements. HRB Bank must meet specific capital guidelines involving quantitative measures of assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. A bank's capital amounts and classification are also subject to qualitative judgments by the regulators about the strength of components of its capital, risk weightings of assets, off-balance sheet transactions and other factors. Quantitative measures established by regulation to ensure capital adequacy require HRB Bank to maintain minimum amounts and ratios of tangible equity, total risk-based capital and Tier 1 capital. In addition to these minimum ratio requirements, HRB Bank is required to continually maintain a 12.0% minimum leverage ratio as a condition of its charter-approval order through fiscal year 2009. This condition was extended through fiscal year 2012 as a result of a Supervisory Directive issued on May 29, 2007. There are no conditions or events since March 31, 2007 that management believes have changed HRB Bank's category. We will monitor regulatory compliance with this ratio monthly and discuss with the OTS in the event the minimum is not maintained.

As of March 31, 2007, our most recent Thrift Financial Report (TFR) filing with the OTS, HRB Bank was a "well capitalized" institution under the prompt corrective action provisions of the FDIC. See Item 8, note 17 to the consolidated financial statements for additional information.

H&R Block, Inc. is subject to a three percent minimum ratio of adjusted tangible capital to adjusted total assets, as defined by the OTS. We fell below the three percent minimum ratio at April 30, 2007 and the OTS issued a Supervisory Directive on May 29, 2007. Failure to comply with the Supervisory Directive could trigger additional discretionary actions by the OTS such as a supervisory agreement, cease-and-desist orders and civil monetary penalties. See Item 7, "Regulatory Environment" and Item 8, note 17 to the consolidated financial statements for additional information, including discussion of our non-compliance with the three percent minimum capital requirement and actions taken by the OTS. If we are not in a position to cure deficiencies, a resulting failure could impair our ability to repurchase shares of our common stock, acquire businesses and pay dividends.

CONCENTRATION OF CREDIT RISK – The overall credit quality of HRB Bank's mortgage loans held for investment is impacted by the strength of the U. S. economy and local economies. We continually monitor changes in the economy, particularly unemployment rates and housing prices, as these factors can impact the ability of borrowers to repay their loans. Economic trends that negatively affect housing prices and the job

market could result in, among other things, deterioration in credit quality of our loan portfolio. Our loan portfolio is concentrated in the states of Florida, California, New York and Wisconsin, which represented 18.8%, 16.3%, 12.8% and 9.7%, respectively, of our total mortgage loans held for investment at April 30, 2007. No other state held more than 5% of our loan balances.

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 Consumer Financial 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 financial 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.

INTEREST RATE RISK – Net interest income is an important source of revenue for this segment. Our ability to manage interest rate risk could impact our financial condition. Our results of operations depend, in part, on our level of net interest income and our effective management of the impact of changing interest rates and varying asset and liability maturities. Many factors affect interest rates, including governmental monetary policies and domestic and international economic and political conditions.

RECURRING OPERATING LOSSES – Continuing operating losses at HRBFA may impact the valuation of goodwill and long-lived 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.

DISCONTINUED OPERATIONS

LIQUIDITY AND CAPITAL – We are dependent on the use of our off-balance sheet arrangements to fund our daily non-prime mortgage loan originations, and depend on the secondary market to securitize and sell mortgage loans and residual interests. Our off-balance sheet arrangements are subject to certain covenants, including a “minimum net income” financial covenant. As of April 30, 2007, OOMC did not meet the “minimum net income” financial covenant contained in certain of its committed warehouse facilities. This covenant requires OOMC to maintain a cumulative minimum net income of at least $1 for the four consecutive fiscal quarters ended April 30, 2007. On April 27, 2007, OOMC obtained waivers of the minimum net income financial covenants from all of the warehouse facility providers. These waivers extend through various dates. Two waivers are subject to OOMC having a specified amount of total warehouse capacity. If we do not obtain extensions of facilities and waivers that expire before July 31, 2007 or expand existing capacity, we would be in violation of this warehouse capacity requirement.

OOMC will not meet this financial covenant at July 31, 2007. We have, however, obtained waivers from a sufficient number of warehouse providers to allow OOMC to continue its off-balance sheet financing activities. At our current origination levels, we estimate we would only need waivers for between $3.0 billion and $4.0 billion of available capacity at any given time. However, the sale of OOMC is subject to various closing conditions, including that OOMC maintain at least $8.0 billion of total capacity in its warehouse facilities throughout the period to the closing date (of which at least $2.0 billion is to be in the form of unused capacity at the closing date).

If OOMC cannot obtain extensions or waivers, warehouse facility providers would have the right to terminate their future funding obligations under the applicable warehouse facilities, terminate OOMC’s right to service the loans remaining in the applicable warehouse or request funding of the 10% guarantee. This termination could adversely impact OOMC’s ability to fund new loans and our ability to complete the OOMC sales transaction. See additional discussion in Item 7, under “Off-Balance Sheet Financing Arrangements.”

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 significant 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 “Discontinued Operations” for discussion of interest rate risk, and Item 7, “Critical Accounting Policies” for discussion of our valuation methodology.

Conditions in the non-prime mortgage industry were challenging throughout fiscal year 2007, and particularly in our fourth quarter. Our mortgage operations, as well as the entire industry, were impacted by deteriorating conditions in the secondary market, where reduced investor demand for loan purchases, higher investor yield requirements and increased estimates for future losses reduced the value of non-prime loans. Under these conditions non-prime originators generally reported significant increases in losses and many were unable to meet their financial obligations. As a result, during our fourth quarter our mortgage operations originated mortgage loans that, by the time we sold them in the secondary market, were valued at less than par. Conditions in the non-prime mortgage industry resulted in significant losses in our mortgage operations during the fourth quarter of fiscal year 2007. See additional discussion of the performance of our mortgage operations in Item 7, under "Discontinued Operations." If conditions in the non-prime mortgage industry do not improve, it could adversely affect the results of our mortgage operations.

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 "Discontinued Operations" and Item 8, note 20 to our consolidated financial statements for discussion of our derivative instruments.

DELINQUENCY RATES – Our underwriting criteria or collection methods may not provide adequate protection against the risks inherent in the loans we originate and sell. In the event of a default, we may be required to repurchase loans previously sold. Repurchased loans are normally sold in subsequent sale transactions. In the event a repurchased loan cannot be sold, the collateral value of the financed item may not cover the outstanding loan balance and costs of recovery. In the event our mortgage loans held for sale or mortgage loans underlying our residual interests in securitizations experience higher delinquencies, foreclosures, repossessions or losses than anticipated, our results of operations or financial condition could be adversely affected. 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. See additional discussion of our loan repurchases in Item 8, note 20 to the consolidated financial statements.

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 and losses. 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.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We completed construction of new corporate headquarters during fiscal year 2007, and consolidated the majority of our Kansas City-based personnel into one facility. We own our new corporate headquarters, which is located in Kansas City, Missouri. Our former corporate headquarters building was sold during fiscal year 2007.

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.

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.

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. HRB Bank is headquartered and its single branch location is also located in our corporate facility.

OOMC's executive offices are located in leased offices in Irvine, California. OOMC 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.

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 19 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 regarding debt collection activities; and that we owe, and breached, a fiduciary duty to our customers in connection with the RAL program.

The amounts claimed in the RAL Cases have been very substantial in some instances. 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").

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. 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 constitutes one of the 2006 Settlements. On April 19, 2006, we entered into a settlement agreement regarding this case, subject to final court approval. The settlement was approved by the court on August 28, 2006. One objector filed an appeal, which was dismissed on March 1, 2007. Unless a Petition for Certiorari is filed by the objector and granted by the United States Supreme Court, the settlement is final.

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. On September 26, 2006, the Pennsylvania Supreme Court reversed the appellate court's reversal of the trial court's

decision to decertify the class. The plaintiff is seeking further review by the appellate 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. CGC-06-449461, in the California Superior Court, San Francisco County, 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). This case is in the discovery stage.

PEACE OF MIND LITIGATION – *Lorie J. Marshall, et al. v. H&R Block Tax Services, Inc., et al*., Civil Action 2003L000004, 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 actions 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 (Index No. 06/401110) entitled *The People of New York v. H&R Block, Inc. and H&R Block Financial Advisors, Inc.* The complaint alleged fraudulent business practices, deceptive acts and practices, common law fraud and breach of fiduciary duty with respect to the Express IRA product and sought equitable relief, disgorgement of profits, damages and restitution, civil penalties and punitive damages. On December 1, 2006, the Supreme Court of the State of New York issued a ruling that dismissed the New York Attorney General's lawsuit in its entirety on procedural grounds but granted leave to amend and refile the lawsuit. The amended complaint has been filed and alleges causes of action similar to those claimed in the original complaint and seeks equitable relief, disgorgement of profits, damages and restitution, civil penalties and punitive damages. We intend to defend this case vigorously, but there are no assurances as to its outcome.

In addition to the New York Attorney General action, a number of civil actions were filed against us concerning the Express IRA matter, the first of which was filed on March 17, 2006. Except for two cases pending in state court, all of the civil actions have been consolidated by the panel for Multi-District Litigation into a single action styled *In re H&R Block, Inc. Express IRA Marketing Litigation* in the United States District Court for the Western District of Missouri. We intend to defend these cases vigorously, but there are no assurances as to their outcome.

SECURITIES LITIGATION – On March 17, 2006, the first of three putative class actions alleging violations of certain securities laws were filed against the Company and certain of its current and former officers and directors (the "Securities Class Action Cases"). In addition, on April 5, 2006, the first of nine shareholder derivative actions purportedly brought on behalf of the Company (which is named as a "nominal defendant") were filed against certain of the Company's current and former directors and officers (the "Derivative Cases"). On September 20, 2006, the United States District

Court for the Western District of Missouri ordered all of the Securities Class Action Cases and the Derivative Cases consolidated into a single action styled *In re H&R Block Securities Litigation*. The court appointed a lead plaintiff who filed a consolidated complaint on April 6, 2007 against the Company and certain of its officers. The complaint alleges, among other things, deceptive, material and misleading financial statements, failure to prepare financial statements in accordance with generally accepted accounting principles and concealment of the potential for lawsuits stemming from the allegedly fraudulent nature of the Company's operations. The complaint seeks unspecified damages and equitable relief. We intend to defend this litigation vigorously, but there are no assurances as to its outcome.

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, was recessed until October 2006 and is scheduled to continue through August 2007. 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 and resolution of this matter.

RSM EquiCo, Inc., a subsidiary of RSM, is a party to a putative class action filed on July 11, 2006 and entitled *Do Right's Plant Growers v. RSM EquiCo, Inc., RSM McGladrey, Inc., H&R Block, Inc. and Does 1-100, inclusive*, Case No. 06 CC00137, in the California Superior Court, Orange County. The complaint contains allegations regarding business valuation services provided by RSM EquiCo, Inc. including fraud, negligent misrepresentation, breach of contract, breach of implied covenant of good faith and fair dealing, breach of fiduciary duty and unfair competition and seeks unspecified damages, restitution and equitable relief. There can be no assurance regarding the outcome and resolution of this matter.

We have from time to time been party to investigations, claims and lawsuits not discussed herein arising out of our business operations. These investigations, claims and lawsuits include actions by state attorneys general, other state regulators, individual plaintiffs, and cases in which plaintiffs seek to represent a class of 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 investigations, claims and lawsuits pertain to RALs, the origination and servicing of mortgage loans, the electronic filing of customers' income tax returns, the POM guarantee program, and our Express IRA program and other investment products and RSM EquiCo, Inc. business valuation services. 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 the event of an unfavorable outcome, the amounts we may be required to pay in the discharge of liabilities or settlements could have a material adverse effect on our consolidated financial statements.

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 2007.

PART II

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

H&R Block's common stock is traded on the NYSE. The information called for by this item with respect to H&R Block's common stock appears in Item 8, note 22 to our consolidated financial statements. On June 15, 2007, there were 29,455 shareholders of record and the closing stock price on the NYSE was $23.11 per share. During the fiscal year ended April 30, 2007, we issued approximately 21,000 shares of our common stock as purchase price consideration for acquisitions. These issuances were private offerings exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

A summary of our securities authorized for issuance under equity compensation plans as of April 30, 2007 is as follows:

(shares in 000s)

	Number of securities to be issued upon exercise of options warrants and rights	Weight-average exercise price of outstanding options warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column)
Equity compensation plans approved by security holders	**23,405**	**$ 21.61**	**25,796**
Equity compensation plans not approved by security holders	**—**	**$ —**	**—**
Total	**23,405**	**$ 21.61**	**25,796**

The remaining information called for by this item relating to "Securities Authorized for Issuance under Equity Compensation Plans" is reported in Item 8, note 13 to our consolidated financial statements.

A summary of our purchases of H&R Block common stock during the fourth quarter of fiscal year 2007 is as follows:

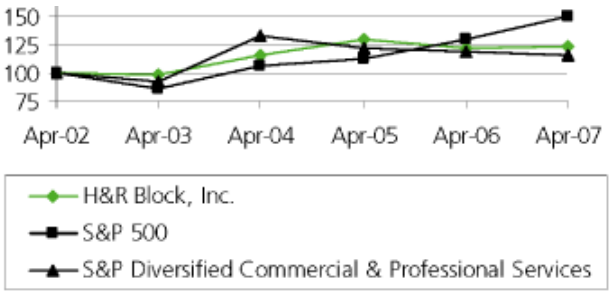
(shares in 000s)

	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	**7**	**$ 24.23**	**—**	**22,352**
March 1 — March 31	**1**	**$ 20.83**	**—**	**22,352**
April 1 — April 30	**2**	**$ 22.88**	**—**	**22,352**

(1) On June 9, 2004, our Board of Directors approved the repurchase of 15.0 million shares of H&R Block common stock. On June 7, 2006, our Board approved an additional authorization to repurchase 20.0 million shares. These authorizations have 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.

PERFORMANCE GRAPH — The following graph compares the cumulative five-year total return provided shareholders on H&R Block, Inc.'s common stock relative to the cumulative total returns of the S&P 500 index and the S&P Diversified Commercial & Professional Services index. An investment of $100, with reinvestment of all dividends, is assumed to have been made in our common stock and in each of the indexes on April 30, 2002 and its relative performance is tracked through April 30, 2007.



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, 2007 from our consolidated financial statements. During fiscal year 2007, we met the criteria requiring us to present the related financial results of OOMC, HRBMC and four other businesses as discontinued operations and the assets and liabilities of all of the businesses being sold as held-for-sale in the consolidated financial statements. All periods presented have been reclassified to reflect our discontinued operations. 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,	**2007**	2006	2005	2004	2003
Revenues	**$ 4,021,274**	$ 3,574,753	$ 3,146,369	$ 2,895,786	$ 2,528,395
Net income before discontinued operations and change in accounting principle	**374,337**	297,541	319,749	275,769	74,434
Net income (loss)	**(433,653)**	490,408	623,910	694,093	477,615
Basic earnings (loss) per share:					
Net income before discontinued operations and change in accounting principle	**$ 1.16**	$ 0.91	$ 0.96	$ 0.78	$ 0.21
Net income (loss)	**(1.34)**	1.49	1.88	1.96	1.33
Diluted earnings (loss) per share:					
Net income before discontinued operations and change in accounting principle	**$ 1.15**	$ 0.89	$ 0.95	$ 0.76	$ 0.20
Net income (loss)	**(1.33)**	1.47	1.85	1.92	1.30
Total assets	**$ 7,499,493**	$ 5,989,135	$ 5,538,056	$ 5,233,827	$ 4,666,502
Long-term debt	**519,807**	417,262	922,933	545,811	822,287
Dividends per share	**$ 0.53**	$ 0.49	$ 0.43	$ 0.39	$ 0.35

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

We are a financial services 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 for each of our reportable segments can be summarized as follows:

- Tax Services — expand access to our services through improved distribution of our digital offerings and continue to improve the quality of service we provide to our clients.
- Business Services — continue expansion of our national accounting, tax and consulting business, build and manage brand awareness, build differentiated and value-driven services and improve our client service culture.
- Consumer Financial Services — integrate the Tax Services client base into this segment and serve the broad consumer market through advisory and banking relationships.

DISCONTINUED OPERATIONS — On April 19, 2007, we entered into an agreement to sell OOMC. In conjunction with this plan, we also announced we would terminate the operations of HRBMC.

During fiscal year 2007, we committed to a plan to sell and/or completed the wind-down of three smaller lines of business previously reported in our Business Services segment, as well as our tax operations in the United Kingdom previously reported in Tax Services.

During fiscal year 2007, we met the criteria requiring us to present the related financial results of these businesses as discontinued operations and the assets and liabilities of all of the businesses being sold as held-for-sale in the consolidated financial statements. All periods presented have been reclassified to reflect our discontinued operations. See Item 1 and Item 8, note 20 to our consolidated financial statements for additional information.

(in 000s, except per share amounts)

Consolidated Results of Operations			
Year ended April 30,	**2007**	2006	2005
REVENUES —			
Tax Services	**$ 2,685,858**	$ 2,449,751	$ 2,356,708
Business Services	**932,361**	828,133	547,185
Consumer Financial Services	**388,090**	287,955	239,244
Corporate and eliminations	**14,965**	8,914	3,232
	$ 4,021,274	$ 3,574,753	$ 3,146,369
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE TAXES —			
Tax Services	**$ 705,171**	$ 590,089	$ 665,291
Business Services	**57,661**	70,661	43,207
Consumer Financial Services	**19,811**	(32,835)	(75,370)
Corporate and eliminations	**(146,845)**	(117,433)	(105,515)
	635,798	510,482	527,613
Income taxes	**261,461**	212,941	207,864
Net income from continuing operations	**374,337**	297,541	319,749
Net income (loss) of discontinued operations	**(807,990)**	192,867	304,161
Net income	**$ (433,653)**	$ 490,408	$ 623,910
Basic earnings per share:			
Net income from continuing operations	**$ 1.16**	$ 0.91	$ 0.96
Net income (loss) of discontinued operations	**(2.50)**	0.58	0.92
Net income	**$ (1.34)**	$ 1.49	$ 1.88
Diluted earnings per share			
Net income from continuing operations	**$ 1.15**	$ 0.89	$ 0.95
Net income (loss) of discontinued operations	**(2.48)**	0.58	0.90
Net income	**$ (1.33)**	$ 1.47	$ 1.85

RESULTS OF OPERATIONS —

TAX SERVICES

This segment primarily consists of our income tax preparation businesses — retail, online and software. This segment includes our tax operations in the United States, Canada and Australia. The following discussion excludes the results of our tax business in the United Kingdom, which is reported in discontinued operations for all periods presented.

Tax Services Operating Statistics (in 000s, except average fee)

Year Ended April 30,	2007	2006(1)	2005(1)
CLIENTS SERVED —			
United States:			
Company-owned operations	**10,336**	10,359	10,608
Franchise operations	**5,458**	5,373	5,428
IMAL only (2)	**77**	—	—
	15,871	15,732	16,036
Digital tax solutions (3)	**4,444**	3,721	3,017
	20,315	19,453	19,053
International (4)	**2,569**	2,459	2,333
	22,884	21,912	21,386
NET AVERAGE FEE PER CLIENT SERVED (5) —			
Company-owned operations	**$ 172.45**	$ 162.91	$ 153.53
Franchise operations	**151.06**	140.37	133.49
	$ 165.06	$ 155.20	$ 146.75
RALs (6) —			
Company-owned operations	**2,402**	2,542	2,667
Franchise operations	**1,450**	1,487	1,499
	3,852	4,029	4,166

(1) Company-owned and franchise data for fiscal years 2006 and 2005 have not been restated for franchise acquisitions.

(2) Clients who received an IMAL but did not return for tax preparation and/or e-filing services.

(3) 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.

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

(5) Calculated as gross tax preparation 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,	2007	2006	2005
Service revenues:			
Tax preparation fees	**$ 1,896,269**	$ 1,791,624	$ 1,718,208
Other services	**301,411**	204,892	192,311
	2,197,680	1,996,516	1,910,519
Other revenues:			
Royalties	**220,136**	207,728	197,551
Loan participation fees and related revenue	**210,040**	177,852	182,784
Other	**58,002**	67,655	65,854
Total revenues	**2,685,858**	2,449,751	2,356,708
Cost of services:			
Compensation and benefits	**826,064**	753,793	722,067
Occupancy	**346,937**	316,686	281,298
Supplies	**58,013**	52,857	47,600
Depreciation and amortization	**42,043**	44,825	54,505
Bad debt	**25,228**	31,820	33,020
Allocated shared services and other	**189,595**	118,342	121,958
	1,487,880	1,318,323	1,260,448
Provision for RAL litigation	**—**	70,200	—
Cost of other revenues, selling, general and administrative	**492,807**	471,139	430,969
Total expenses	**1,980,687**	1,859,662	1,691,417
Pretax income	**$ 705,171**	$ 590,089	$ 665,291

FISCAL 2007 COMPARED TO FISCAL 2006 — Tax Services' revenues increased $236.1 million, or 9.6%, compared to the prior year. We opened nearly 300 new company-owned offices, 250 of which were part of the expansion of our retail distribution network. This expansion contributed incremental revenues of $22.3 million and pretax losses of $5.7 million in fiscal year 2007.

Tax preparation fees from our retail offices increased $104.6 million, or 5.8%, for fiscal year 2007. This increase is primarily due to an increase of 5.9% in the net average fee per U.S. client served, while the number of U.S. clients served in company-owned offices was essentially flat compared to last year. Our international operations contributed $9.6 million to the increase, resulting from a 4.5% increase in clients served.

Other service revenue increased $96.5 million, or 47.1%, primarily due to $34.6 million in additional license fees earned from bank products, $25.9 million in additional revenues from our online tax preparation and e-filing services and a $12.2 million increase in the recognition of deferred fee revenue from our POM guarantees. Additionally, this segment earned

customer fees in connection with an agreement with HRB Bank for our new H&R Block Emerald Prepaid MasterCard® program, under which, this segment shares in the revenues and expenses associated with the program.

Royalty revenue increased $12.4 million, or 6.0%, due to a 7.6% increase in the net average fee and a 1.6% increase in clients served in franchise offices.

Loan participation fees and related revenues increased $32.2 million, or 18.1%, from the prior year. This increase is primarily due to the introduction of the IMAL, an early-season loan product, which increased our participation revenues $17.6 million. The remainder of the increase is primarily due to our new RAL participation agreement with HSBC.

Other revenues decreased $9.7 million, or 14.3%, primarily due to a decline in revenues from supply sales to franchises, as our franchises now order directly from the supplier.

Revenue from our digital business, which includes both service and product revenues, increased $29.2 million, or 21.9%, primarily due to a 19.4% increase in clients served. In fiscal year 2007, we implemented an aggressive plan to grow market share, although the required spending to achieve these results did impact our margin.

Total expenses increased $121.0 million, or 6.5%, compared to the prior year. Cost of services increased $169.6 million, or 12.9%, from the prior year. Our real estate expansion efforts have contributed to a total increase of $28.0 million across all cost of services categories. Compensation and benefits increased $72.3 million, or 9.6%, primarily due to higher wages associated with increased revenues, costs associated with our earlier office openings and initiatives addressing operational readiness for the tax season. Occupancy expenses increased $30.3 million, or 9.6%, primarily as a result of higher rent expenses, due to a 5.9% increase in company-owned offices under lease and a 3.9% increase in the average rent. Other cost of services increased $71.3 million, or 60.2%, primarily due to additional corporate shared services for information technology and other projects, and costs associated with the H&R Block Emerald Prepaid MasterCard® program, which this segment shares with HRB Bank.

Cost of other revenues, selling, general and administrative expenses increased $21.7 million, or 4.6%, primarily due to increases of $30.9 million and $26.0 million in bad debt on loan participations and marketing expenses, respectively. The higher bad debt expense is primarily due to an $18.0 million favorable adjustment to RAL bad debt recorded in the prior year and the addition of our IMAL product. These increases were partially offset by a $26.6 million reduction in corporate shared services and a $10.8 million decrease in legal expenses.

In the prior year, we recorded $70.2 million, including legal fees, related to the settlement of RAL litigation.

Pretax income for fiscal year 2007 increased $115.1 million, or 19.5%, from 2006, primarily due to higher revenues and the impact of the $70.2 million prior year RAL litigation charge.

FISCAL 2006 COMPARED TO FISCAL 2005 — Tax Services' revenues increased $93.0 million, or 3.9%, compared to fiscal year 2005. 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 fees from our retail offices increased $73.4 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 $17.1 million to the increase, resulting from a 5.4% increase in clients served.

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

Loan participation fees and related revenues earned during fiscal year 2006 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.

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.

Total expenses increased $168.2 million, or 9.9%, primarily due to a $70.2 million charge relating to the settlement of two RAL claims. See additional discussion below and in Item 8, note 19 to the consolidated financial statements.

Cost of services for the fiscal year 2006 increased $57.9 million, or 4.6%, from fiscal year 2005. 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 $31.7 million, or 4.4%, primarily due to an increase in staff needed for our new offices and the addition of costs related to our small business initiatives. Occupancy expenses increased $35.4 million, or 12.6%, 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 fiscal year 2005.

Cost of other revenues, selling, general and administrative expenses increased $40.2 million, or 9.3%, 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 fiscal year 2006. 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, resulting in a decrease to our provision for bad debt of $18.0 million during fiscal year 2006.

Pretax income for fiscal year 2006 decreased $75.2 million, or 11.3%, from 2005, primarily due to the impact of the RAL litigation.

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 Cummins Settlement Agreement's terms, we contributed 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. Settlement of this matter resulted 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 contributed 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 $19.5 million pretax charge 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 meritorious defenses to the other lawsuits and will vigorously defend our position. Nevertheless, the amounts claimed in these lawsuits are 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 3, "Legal Proceedings" and in Item 8, note 19 to the consolidated financial statements.

BUSINESS SERVICES

This segment offers middle-market companies accounting, tax and business consulting services, wealth management and capital market services. The following discussion excludes the results of the three businesses reported in discontinued operations for all periods presented.

Business Services – Operating Statistics

Year Ended April 30,	**2007**	2006	2005
ACCOUNTING, TAX AND BUSINESS CONSULTING —			
Chargeable hours (000s)	**5,075**	4,357	2,898
Chargeable hours per person	**1,373**	1,385	1,430
Net billed rate per hour	**$ 148**	$ 141	$ 133
Average margin per person	**$ 118,415**	$ 114,755	$ 112,573

Business Services – Financial Results (in 000s)

Year Ended April 30,	**2007**	2006	2005
Service revenues:			
Accounting, tax and consulting	**$ 808,223**	$ 704,338	$ 425,329
Capital markets	**48,886**	59,553	67,922
Other services	**29,993**	26,248	19,692
	887,102	790,139	512,943
Other	**45,259**	37,994	34,242
Total revenues	**932,361**	828,133	547,185
Cost of services:			
Compensation and benefits	**511,257**	457,050	307,301
Occupancy	**68,859**	55,883	21,072
Other	**69,941**	60,101	53,218
	650,057	573,034	381,591
Amortization of intangible assets	**15,521**	16,165	14,442
Cost of other revenues, selling, general and administrative	**209,122**	168,273	107,945
Total expenses	**874,700**	757,472	503,978
Pretax income	**$ 57,661**	$ 70,661	$ 43,207

FISCAL 2007 COMPARED TO FISCAL 2006 — Business Services' revenues for fiscal year 2007 increased $104.2 million, or 12.6%, over the prior year.

Accounting, tax and consulting revenues increased $103.9 million, or 14.7%, over the prior year. This increase resulted primarily from the acquisition of AmexTBS, which contributed $98.7 million in additional service revenues. This acquisition, coupled with an increase in our existing business, was partially offset by a decline in consulting revenue, resulting from a change in organizational structure between the businesses we acquired from AmexTBS and the attest firms that, while not affiliates of our company, also serve our clients. As a result, we no longer record the revenues and expenses associated with leasing employees in these offices to the attest firms.

Capital markets revenues declined $10.7 million. Valuation and seminar revenues declined $23.2 million due to a 59.2% decline in the number of business valuation projects. This decrease was partially offset by a $12.6 million increase in underwriting revenues due to a 28.6% increase in transactions and a 32.2% increase in revenue per transaction. Other revenues increased primarily due to higher computer hardware and software sales.

Total expenses increased $117.2 million, or 15.5%, compared to the prior year. Cost of services increased $77.0 million, due to increases in compensation and benefits and occupancy expenses. Compensation and benefits increased $54.2 million, or 11.9%, due to an increase in the number of personnel, primarily as a result of the AmexTBS acquisition, and an increase in the average wage per employee. Occupancy expenses increased $13.0 million due to higher rent expense resulting from office locations added with the AmexTBS acquisition in fiscal year 2006. These offices only contributed seven months of expense in the prior year, compared to twelve months in the current year.

Cost of other revenues, selling, general and administrative expenses increased $40.8 million, or 24.3%, due to seven months of expense from the AmexTBS acquisition in the prior year, compared to twelve months in the current year, $5.9 million of costs incurred related to international acquisitions that will not be completed and additional costs associated with our business development initiatives.

Pretax income for the year ended April 30, 2007 of $57.7 million compares to $70.7 million in the prior year. The decline was primarily due to off-season losses of AmexTBS.

FISCAL 2006 COMPARED TO FISCAL 2005 — Business Services' revenues for fiscal year 2006 increased $280.9 million, or 51.3%, from fiscal year 2005. This increase was primarily due to the acquisition of AmexTBS, which increased accounting, tax and consulting revenues $251.3 million. The remaining $27.7 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. Other service revenues increased $6.6 million as a result of growth in wealth management services.

Total expenses increased $253.5 million, or 50.3%, for fiscal year 2006 compared to the prior year. Cost of services increased $191.4 million, primarily due to a $149.7 million increase in compensation and benefits. Compensation and benefits increased primarily due to the AmexTBS 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 $34.8 million primarily due to acquisitions.

Cost of other revenues, selling, general and administrative expenses increased $60.3 million primarily due to acquisitions and additional costs associated with our business development initiatives.

Pretax income for the year ended April 30, 2006 was $70.7 million, compared to $43.2 million in fiscal year 2005.

CONSUMER FINANCIAL SERVICES

This segment is primarily engaged in offering brokerage services, along with investment planning and related financial advice through HRBFA and full-service banking through HRB Bank. HRBFA and HRB Bank, our "Block-branded" businesses, are focused on increasing client loyalty and retention by offering expanded financial and banking services to our retail tax clients. HRB Bank commenced operations May 1, 2006, therefore segment results for fiscal years 2006 and 2005 include only the operations of HRBFA and are not directly comparable to fiscal year 2007.

Consumer Financial Services – Operating Statistics

Year Ended April 30,	2007	2006	2005
Broker-dealer:			
Traditional brokerage accounts (1)	**386,902**	418,162	431,749
New traditional brokerage accounts funded by tax clients	**13,920**	17,072	18,164
Cross-service revenue as a percent of total production revenue	**16.3%**	16.1%	14.8%
Average assets per traditional brokerage account	**$ 85,518**	$ 75,222	$ 63,755
Average margin balances (millions)	**$ 404**	$ 539	$ 597
Average customer payable balances (millions)	**$ 613**	$ 782	$ 975
Number of advisors	**918**	958	1,010
Banking:			
Efficiency ratio (2)	**37%**	N/A	N/A
Net interest margin (3)	**2.70%**	N/A	N/A
Pretax return on average assets (4)	**2.60%**	N/A	N/A
Total assets (millions)	**$ 1,501**	N/A	N/A
Loans purchased from affiliates (millions)	**$ 1,181**	N/A	N/A

(1) Includes only accounts with a positive balance.

(2) Defined as non-interest expense divided by revenue net of interest expense. See "Reconciliation of Non-GAAP Financial Information" at the end of Item 7.

(3) Defined as net interest income divided by average assets. See "Reconciliation of Non-GAAP Financial Information" at the end of Item 7.

(4) Defined as pretax banking income divided by average assets. See "Reconciliation of Non-GAAP Financial Information" at the end of Item 7.

Consumer Financial Services – Operating Results (in 000s)

Year Ended April 30,	2007	2006	2005
Service revenues:			
Financial advisor production revenue	**$ 199,673**	$ 190,474	$ 165,902
Other	**68,661**	32,256	29,206
	268,334	222,730	195,108
Net interest income on:			
Margin lending	**52,163**	54,152	40,584
Banking activities	**23,963**	—	—
	76,126	54,152	40,584
Provision for loan loss reserves	**(3,622)**	—	—
Other	**(1,187)**	4,430	438
Total revenues (1)	**339,651**	281,312	236,130
Cost of services:			
Compensation and benefits	**136,105**	135,256	116,552
Occupancy	**20,586**	21,050	22,178
Other	**27,418**	21,132	19,555
	184,109	177,438	158,285
Amortization of intangible assets	**36,625**	36,625	36,625
Selling, general, and administrative	**99,106**	100,084	116,590
Total expenses	**319,840**	314,147	311,500
Pretax income (loss)	**$ 19,811**	$ (32,835)	$ (75,370)

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

FISCAL 2007 COMPARED TO FISCAL 2006 — Consumer Financial Services' revenues, net of interest expense and provision for loan losses, for fiscal year 2007 increased $58.3 million, or 20.7%, over the prior year, primarily as a result of HRB Bank, which commenced operations May 1, 2006.

Financial advisor production revenue, which consists primarily of fees earned on assets under administration and commissions on customer trades, increased $9.2 million, or 4.8%, over the prior year, due primarily to higher annuitized revenues. The following table summarizes the key drivers of production revenue:

Year Ended April 30,	2007	2006
Client trades	**907,075**	974,625
Average revenue per trade	**$ 126.54**	$ 119.11
Assets under administration (billions)	**$ 33.1**	$ 31.8

Annualized productivity per advisor	**$ 216,000**	$ 194,000

Other service revenues increased $36.4 million, due to revenues earned from our new H&R Block Prepaid Emerald MasterCard® program, coupled with positive sweep account rate variances and higher underwriting fees.

Net interest income on banking activities totaled $24.0 million for fiscal year 2007. The following table summarizes the key drivers of net interest revenue on banking activities:

(dollars in 000s)

	Average Balance	Average Rate
Loans	**$ 746,387**	**6.80%**
Investments	**117,350**	**5.25%**
Deposits	**700,707**	**4.59%**

Total expenses increased $5.7 million, or 1.8%. Cost of services increased $6.7 million, or 3.8%, primarily due to the expenses of HRB Bank, which opened May 1, 2006.

Pretax income for Consumer Financial Services for fiscal year 2007 was $19.8 million compared to the prior year loss of $32.8 million.

FISCAL 2006 COMPARED TO FISCAL 2005 — Consumer Financial Services' revenues, net of interest expense, increased $45.2 million, or 19.1% over fiscal year 2005.

Financial advisor production revenue increased $24.6 million, or 14.8%, over fiscal year 2005, primarily due to additional annuitized revenue. Higher annuitized revenues resulted from increased sales of annuities and insurance, wealth management accounts, mutual funds, and unit investment trusts.

Annualized productivity averaged approximately $194,000 per advisor during fiscal year 2006 compared to $166,000 in the prior year. Increased productivity was due to minimum production standards put into place during the fourth quarter of fiscal year 2005.

Net interest income increased $13.6 million, or 33.4%, 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 14.2%, primarily due to a $4.8 million decline in legal expenses, due in part to a favorable arbitration outcome. Fiscal year 2006 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 Consumer Financial Services for fiscal year 2006 was $32.8 million compared to a loss of $75.4 million in 2005.

Table of Contents

DISCONTINUED OPERATIONS

Discontinued operations includes OOMC and HRBMC, mortgage businesses primarily engaged in the origination and acquisition of non-prime and prime mortgage loans, the sale and securitization of mortgage loans and residual interests, and the servicing of non-prime loans. These businesses were previously reported in our Mortgage Services segment in our Annual Report on Form 10-K for fiscal year 2006. Also included are the results of three smaller lines of business previously reported in our Business Services segment, as well as our tax operations in the United Kingdom previously reported in our Tax Services segment. Operating results presented below are net of eliminations of intercompany activities.

Discontinued Operations – Operating Statistics (dollars in 000s)

Year Ended April 30,	2007	2006	2005
VOLUME OF LOANS ORIGINATED —			
Wholesale (non-prime)	**$24,342,779**	$36,028,794	$26,977,810
Retail:			
Non-prime	**1,588,944**	3,260,071	3,005,168
Prime	**1,141,744**	1,490,898	1,018,746
	$27,073,467	$40,779,763	$31,001,724
LOAN CHARACTERISTICS(1)—			
Weighted average FICO score	**613**	622	614
Weighted average interest rate for borrowers (WAC)	**8.60%**	7.87%	7.36%
Weighted average loan-to-value	**82.2%**	80.6%	78.9%
ORIGINATION MARGIN (% OF ORIGINATION VOLUME)—			
Loan sale premium (discount)	**(0.06%)**	1.42%	2.77%
Residual cash flows from beneficial interest in Trusts	**0.43%**	0.51%	0.63%
Gain (loss) on derivatives	**(0.04%)**	0.35%	0.15%
Loan sale repurchase reserves	**(1.44%)**	(0.18%)	(0.13%)
Retained MSRs	**0.64%**	0.61%	0.44%
	(0.47%)	2.71%	3.86%
Cost of acquisition	**(0.14%)**	(0.37%)	(0.54%)
Direct origination expenses	**(0.49%)**	(0.58%)	(0.68%)
Net gain on sale — gross margin (2)	**(1.10%)**	1.76%	2.64%
Other revenues	**(0.11%)**	(0.02%)	0.03%
Other cost of origination	**(1.61%)**	(1.33%)	(1.55%)
Net margin (loss)	**(2.80%)**	0.41%	1.12%
Total cost of origination (3)	**2.10%**	1.91%	2.23%
Total cost of origination and acquisition	**2.24%**	2.28%	2.77%
LOAN DELIVERY —			
Loan sales:			
Third-party buyers	**$26,295,714**	$40,272,225	$30,975,523
HRB Bank	**1,181,498**	—	—
	$27,477,212	$40,272,225	$30,975,523
Execution price (4)	**1.10%**	1.58%	3.01%

Discontinued Operations – Operating Results (in 000s)

Year Ended April 30,	2007	2006	2005
Components of gains on sales:			
Gain on mortgage loans	**$ 101,980**	$ 648,693	$ 811,734
Gain (loss) on derivatives	**(11,042)**	141,223	46,853
Loan sale repurchase reserves	**(388,733)**	(73,562)	(39,673)
Gain on sales of residual interests	**7,038**	31,463	15,396
Impairment of residual interests	**(168,878)**	(34,107)	(12,235)
	(459,635)	713,710	822,075
Interest income	**55,024**	133,703	149,581
Loan servicing revenue	**433,438**	398,992	273,056
Other	**45,747**	51,643	28,938
Total revenues	**74,574**	1,298,048	1,273,650
Cost of services	**380,186**	351,676	253,461
Cost of other revenues	**295,336**	444,391	356,052
Impairments	**350,878**	—	—
Selling, general and administrative	**281,182**	185,070	174,035
Total expenses	**1,307,582**	981,137	783,548
Pretax income (loss)	**(1,233,008)**	316,911	490,102
Income taxes (benefit)	**(425,018)**	124,044	185,941
Net income (loss)	**$ (807,990)**	$ 192,867	$ 304,161

(1) Represents non-prime production.

(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) See “Reconciliation of Non-GAAP Financial Information” at the end of Item 7.

(4) 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 2007 COMPARED TO FISCAL 2006 — Conditions in the non-prime mortgage industry were challenging throughout fiscal year 2007, and particularly in our fourth quarter. Our mortgage operations, as well as the entire industry, were impacted by deteriorating conditions in the secondary market, where reduced investor demand for loan purchases, higher investor yield requirements and increased estimates for future losses reduced the value of non-prime loans. Under these

conditions non-prime originators generally reported significant increases in losses and many were unable to meet their financial obligations. During the fourth quarter we tightened our underwriting standards, which had the effect of reducing our loan origination volumes, but we expect will result in the origination of higher quality loans with better pricing in the secondary markets.

The pretax loss of $1.2 billion includes losses of $50.2 million from our Business Services and Tax Services discontinued operations, with the remainder from our mortgage business. As discussed more fully below, mortgage results include $388.7 million in loss provisions and repurchase reserves, impairments of residual interests of $168.9 million and impairments of other assets totaling $345.8 million. If conditions in the industry, particularly in home appreciation, continue to decline, our future results would continue to be negatively impacted.

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

(dollars in 000s)

Year Ended April 30,	2007	2006
Application process:		
Total number of applications	**256,877**	369,210
Number of sales associates (1)	**1,683**	2,814
Closing ratio (2)	**49.7%**	60.3%
Originations:		
Total number of loans originated	**127,556**	222,749
WAC	**8.60%**	7.87%
Average loan size	**$ 212**	$ 183
Total volume of loans originated	**$27,073,467**	$40,779,763
Direct origination and acquisition expenses, net	**$ 171,374**	$ 387,911
Revenue (loan value):		
Net gain on sale — gross margin (3)	**(1.10%)**	1.76%

(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.

Gains on sales of mortgage assets decreased $1.2 billion from the prior year. This decrease resulted primarily from significantly lower origination volumes and loan sale premiums, increases in loan repurchase reserves and impairments of residual interests and losses on derivatives.

During the fourth quarter, concerns about credit quality in the non-prime industry resulted in lower demand for non-prime loans and a higher yield requirement by investors that purchase the loans. As a result, during the quarter we originated mortgage loans that, by the time we sold them in the secondary market, were valued at less than par. Our fourth quarter net gain on sale gross margin was a negative 6.87% and a negative 1.10% for the full fiscal year. We sold 73% and 39% of our loans through securitizations in the fourth quarter and fiscal year, respectively. Additionally, our loan sale premium declined 148 basis points from 1.42% in fiscal year 2006, to a negative 0.06% in the current year.

The disruption in the secondary market, coupled with declining credit quality and increasing early payment defaults, caused investors in our loans to become increasingly more likely to execute on early payment default provisions available to them in loan sale agreements. As a result, we experienced higher actual and expected loan repurchase activity. Additionally, after we repurchased the loans, we experienced higher severity of losses on those loans. We recorded total loss provisions of $388.7 million during fiscal year 2007 compared to $73.6 million in the prior year. The provision recorded in the current year consists of $238.8 million recorded on loans sold during the current year and $149.9 million related to loans sold in the prior year. Loss provisions as a percent of loan volumes increased 126 basis points over the prior year. See additional discussion of our reserves and repurchase obligations in Item 8, note 20 to our consolidated financial statements.

During the current year, we recorded impairments of $168.9 million in gains on sales of mortgage assets due to higher expected credit losses resulting from the decline in performance of the underlying collateral. We also recorded unfavorable pretax mark-to-market adjustments in other comprehensive income, which decreased the fair value of our residual interests $32.4 million during the current year. These adjustments were recorded net of write-ups of $18.6 million and deferred taxes of $5.3 million. We also recorded $7.0 million and $31.5 million in gains on the sale of residual interests for the years ended April 30, 2007 and 2006, respectively.

During the current year, we recorded a net $11.0 million in losses, compared to gains of $141.2 million in the prior year, related to our various derivative instruments. The decline for the current year was caused by market interest rates, based on the two-year swap, declining 6 basis points compared to an increase of 131 basis points during the prior year. See Item 8, note 20 to the consolidated financial statements.

The value of MSRs recorded in the current year increased to 64 basis points from 61 basis points in the prior year due to changes in our assumptions used to value MSRs, as well as an increase in average loan balances. However, this increase was offset by an overall decline in origination volumes, resulting in

a net decrease in gains on sales of mortgage loans of $78.3 million. See additional discussion of our MSR assumptions in “Critical Accounting Policies” and in Item 8, note 20 to the consolidated financial statements.

Interest income decreased $78.7 million from the prior year. This decrease is primarily due to higher levels of non-performing loans, lower accretion resulting from the sale of previously securitized residual interests and lower write-ups to residual interest balances.

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

		(dollars in 000s)
Year Ended April 30,	**2007**	2006
Average servicing portfolio:		
With related MSRs	**$63,870,378**	$56,521,595
Without related MSRs	**3,314,538**	19,106,863
	$67,184,916	$75,628,458
Ending servicing portfolio:		
With related MSRs	**$63,927,976**	$62,910,568
Without related MSRs	**3,069,073**	10,471,509
	$66,997,049	$73,382,077
Number of loans serviced	**384,156**	441,981
Average delinquency rate	**9.77%**	5.16%
Weighted average FICO score	**621**	621
WAC of portfolio	**8.08%**	7.58%
Carrying value of MSRs	**253,067**	272,472

Loan servicing revenues increased $34.4 million, or 8.6%, compared to the prior year. The increase reflects higher late fee income on delinquent loans. This increase was partially offset by a reduction in our average servicing portfolio, which decreased 11.2%, to $67.2 billion. The annualized rate earned on our entire servicing portfolio was 37 basis points for the current year, compared to 38 basis points in the prior year.

Total expenses for the fiscal year ended April 30, 2007 increased $326.4 million, or 33.3%, over the prior year. Cost of services increased $28.5 million primarily as a result of higher amortization of MSRs, partially offset by reductions in compensation and occupancy expenses resulting from our mortgage restructuring activities.

Cost of other revenues decreased $149.1 million, primarily due to our ongoing restructuring plans. As a result, compensation and benefits declined $116.7 million and other expenses declined $27.4 million.

In conjunction with our agreement to sell OOMC, we recorded impairments during the fourth quarter of fiscal year 2007. The purchase price will be calculated as the fair value of the adjusted tangible net assets of OOMC (as defined by the agreement) at closing less $300.0 million. At April 30, 2007, we valued our assets and liabilities held for sale at estimated fair value at closing, less costs to sell, of $1.1 billion which resulted in an impairment charge of $345.8 million, including the full impairment of goodwill of $152.5 million. Because conditions may change during the period prior to closing, the adjusted tangible net assets of the business at the closing date may be significantly different than the estimated value we have reported as of April 30, 2007. Any changes could change the final impairment amount recorded at closing. See discussion of additional conditions of the sale in Item 1A, under “Potential Sale Transaction.”

Selling, general and administrative expenses increased $96.1 million due primarily to severance costs in connection with our ongoing restructuring plans, coupled with retention bonuses and higher consulting expenses. See additional discussion of the restructuring charge in Item 8, note 20 to the consolidated financial statements.

The pretax loss for the year ended April 30, 2007 was $1.2 billion compared to income of $316.9 million in the prior year.

The loss from discontinued operations for fiscal year 2007 of $808.0 million is net of tax benefits of $425.0 million, and includes income tax benefits related to OOMC totaling $374.6 million. Income taxes for discontinued operations also included one-time benefits of $16.2 million related to permanent deductions for the tax basis of investments in two subsidiaries that were abandoned during the year. Assets of discontinued operations held for sale includes deferred tax assets of $393.6 million, net of the related valuation allowance, and deferred tax liabilities of $94.0 million as of April 30, 2007. In addition, we recorded a valuation allowance of $55.8 million, which primarily relates to deferred tax assets for capital losses and basis differences in certain state jurisdictions. Deferred tax assets of $183.2 million relate to certain residual assets. Although the tax position associated with these deferred tax assets is more likely than not of being sustained, there is a level of uncertainty associated with the amount of benefit. We believe the net deferred tax asset at April 30, 2007 is, more likely than not, realizable.

FISCAL 2006 COMPARED TO FISCAL 2005 — Revenues from discontinued operations increased $24.4 million, or 1.9%, over fiscal year 2005. Revenues increased as a result of higher loan servicing revenues and gains on derivatives, partially offset by lower margins on mortgage loans sold and lower accretion.

Despite a 31.5% increase in loan origination volume, gains on sales of mortgage loans decreased $163.0 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. Because of poor alignment of our WAC with market rates and increases in our funding costs, our loan sale premium declined 135 basis points, to 1.42% from 2.77% in the prior year. In fiscal year 2006, we also increased our loss reserves above our normal loss accrual,

primarily related to repurchase activity for loans sold related to early payment defaults, which reduced gains on sales of mortgage loans.

The initial value of MSRs 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 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. These changes in assumptions increased the weighted average value of MSRs recorded during fiscal year 2006 by approximately $37.0 million (9 basis points of total retained MSRs 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 interest rate swaps and forward loan sale commitments. We generally enter into interest rate swap arrangements related to existing loan applications with rate-lock commitments and for rate-lock commitments we expect to make in the next two to three weeks. During fiscal year 2006, 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 fiscal year 2006, compared to $2.4 billion in fiscal year 2005.

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 those 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.

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 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 fiscal year 2006 increased $197.6 million, or 25.2%, from the prior year. Cost of services increased $98.2 million, or 38.7%, mainly as a result of a higher average servicing portfolio during the current quarter 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. 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 $26.8 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 origination and servicing software.

Selling, general and administrative expenses increased $11.0 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 $173.2 million, or 35.3%, for fiscal year 2006.

CRITICAL ACCOUNTING POLICIES —

We consider the policies discussed below to be critical to understanding our financial statements, as they require the use of significant judgment and estimation in order to measure, at a specific point in time, matters that are inherently uncertain. Specific risks for these critical accounting 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.

VALUATION OF MORTGAGE LOANS HELD FOR INVESTMENT — Determining the allowance for credit losses for loans held for investment requires us to make estimates of losses that are highly uncertain and requires a high degree of judgment.

We record an allowance representing our estimate of credit losses inherent in our portfolio of loans held for investment at the balance sheet date. The majority of our estimated credit loss is evaluated for mortgage loans on a pooled basis. We stratify the loan portfolio based on our view of risk associated with various elements of the pool and assign estimated loss rates based on those risks. Loss rates are based on historical experience, our assessment of economic and market conditions and loss rates of comparable financial institutions. We review non-performing loans individually and record loss estimates typically based on the value of the underlying collateral. Changes in our estimates can affect our operating results.

VALUATION OF GOODWILL — We test goodwill and other indefinite life intangible assets for impairment annually, or more frequently if events occur or circumstances change which would, more likely than not, reduce the fair value of a reporting unit below its carrying value. Our goodwill impairment analysis is based on a discounted cash flow approach and market comparables, 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 our estimate of reporting unit 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.

The goodwill balance in our continuing operations was $993.9 million as of April 30, 2007 and $941.3 million as of April 30, 2006. No goodwill impairments were identified in our continuing operations during fiscal years 2007, 2006 or 2005. In fiscal year 2007, we recorded $154.9 million in goodwill impairments related to the sale or wind-down of businesses reported as discontinued operations.

LITIGATION — It is our policy to routinely assess the likelihood of any adverse judgments or outcomes related to legal matters, as well as ranges of probable losses. Assessing the likely outcome of pending litigation, including the amount of potential loss if any, is highly subjective. Our estimates may differ from actual results due to difficulties in predicting the outcome of jury trial, arbitration hearings, settlement discussions and related activity; predicting the outcome of class certification actions; and various other uncertainties.

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 will be incurred and the range of such loss can be estimated. With respect to other matters, we have concluded that a loss is only reasonably possible or remote, or is not estimable and, therefore, no liability is recorded.

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 subjective and based on our best judgments. 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.

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 or losses on sales of mortgage loans are recognized when control of the assets is surrendered (when loans are sold to third-party buyers, including the Trusts) and are based on the difference between net proceeds received (cash proceeds less repurchase reserves) and the allocated cost of the assets sold. We determine the allocated cost of assets sold based on the relative fair values of net proceeds (i.e. the loans sold), retained MSRs 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 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:		
Cash received	$ 999,000	
Less repurchase reserves	(4,000)	$ 995,000
Beneficial interest in Trusts		20,000
MSRs		7,000
		$ 1,022,000
Computation of gain on sale:		
Net proceeds		$ 995,000
Less allocated cost ($995,000 / $1,022,000 x $1,000,000)		973,581
Recorded gain on sale		$ 21,419
Recorded beneficial interest in Trusts ($20,000 / $1,022,000 x $1,000,000)		$ 19,570
Recorded value of MSRs ($7,000 / $1,022,000 x $1,000,000)		$ 6,849
Recorded liability for repurchase reserves		$ 4,000

Variations in the assumptions we use affect the estimated fair values and the reported net gains on sales. Gains on sales of mortgage loans totaled $102.0 million and $648.7 million for fiscal years 2007 and 2006, respectively.

Our repurchase reserves relate to potential losses that could be incurred related to the repurchase of sold loans or indemnification of losses as a result of early payment defaults or breaches of other representations and warranties customary to the mortgage banking industry.

Loans are repurchased due to a combination of factors, including delinquency and other violations of representations and warranties. In whole loan sale transactions, we guarantee the first payment to the purchaser. If this payment is not collected, it is referred to as an early payment default.

For early payment default-related losses, the amount of losses we expect to incur depends primarily on the frequency of early payment defaults, the rate at which defaulted loans subsequently become current on payments (“cure rate”), the propensity of the buyer of the loans to demand recourse under the loan sale agreement and the severity of loss incurred on loans which have been repurchased. The frequency of early payment defaults, cure rates and loss severity may vary depending on the creditworthiness of the borrower and economic factors such as home price appreciation and interest rates. To the extent actual losses related to repurchase activity are different from our estimates, the fair value of our repurchase reserves will increase or decrease. See Item 8, note 20 to our consolidated financial statements under “Commitments and Contingencies.”

During the year ended April 30, 2007, we experienced higher early payment defaults, resulting in an increase in actual and expected loan repurchase activity. As a result, we recorded total loss provisions of $388.7 million during fiscal year 2007 compared to $73.6 million in the prior year. Loss provisions recorded in the current year consist of $238.8 million recorded on loans sold during the current year and $149.9 million related to loans sold in the prior year. At April 30, 2007, we assumed that substantially all loans that failed to make timely payments according to contractual early payment default provisions will be repurchased, and that approximately 5% of loans will be repurchased from sales that have not yet reached the contractual date upon which repurchases can be determined. Based on historical experience and review of current early payment default, cure rate and loss severity trends, we assumed an average 26% loss severity for loans on which we hold a first lien position. During fiscal year 2007, we increased our estimated loss severity for on-balance sheet loans from an average of 15% to 26%.

Based on our analysis as of April 30, 2007, we estimated our liability for repurchases to be $38.4 million. The sensitivity of the

repurchase reserve to 10% and 20% adverse changes in loss assumptions is $14.4 million and $28.8 million, respectively.

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. 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. We recorded $13.8 million in net write-downs in other comprehensive income and $168.9 million in impairments in the income statement related to these residual interests during fiscal year 2007 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. Available-for-sale (AFS) residual interests valued at $90.3 million and $159.1 million were recorded as of April 30, 2007 and 2006, respectively. Residual interests classified as trading securities totaled $72.7 million at April 30, 2007. We had no trading residual interests at April 30, 2006. See Item 8, note 20 to our consolidated financial statements for current assumptions and a sensitivity analysis of those assumptions. See Item 7A for additional sensitivity analysis related to interest rates.

VALUATION OF MORTGAGE SERVICING RIGHTS — MSRs are recorded when we sell loans to third parties with the servicing of those loans retained. At the time of the loan sale, we determine and record on our balance sheet the allocated historical cost of the MSRs attributable to loans sold, as illustrated above. These MSRs are amortized over the estimated life of the underlying loans. MSRs are carried at the lower of cost or market (LOCOM). On a quarterly basis, MSRs are assessed to determine if our carrying value exceeds fair value. Fair value is estimated using a discounted cash flow approach by stratifying the MSRs based on underlying loan characteristics, including the calendar year the loans are sold. To the extent fair value is less than carrying value we record an impairment charge and adjust the carrying value of the MSRs.

A market price of our MSRs is not readily available because non-prime MSRs are not actively traded in the marketplace. Therefore, the fair value of our MSRs is estimated using a discounted cash flow approach, using valuation methods and assumptions we believe incorporate assumptions used by market participants. Certain of these assumptions are subjective and require a high level of management judgment. MSR valuation assumptions are reviewed and approved by management on a quarterly basis. In determining the assumptions to be used to value MSRs, we review the historical performance of our MSRs, including back-testing of the performance of certain individual assumptions (comparison of actual results to those expected). In addition, we periodically review third-party valuations of certain of our MSRs and peer group MSR valuation surveys to assess the reasonableness of our valuation assumptions and resulting fair value estimates.

Critical assumptions used in our discounted cash flow model include mortgage prepayment speeds, discount rates, costs to service and ancillary income. Variations in our assumptions could materially affect the estimated fair values. Changes to our assumptions are made when current trends and market data indicate that new trends have developed. Certain assumptions, such as ancillary interest income, may change from quarter to quarter as market conditions and projected interest rates change. Other assumptions, such as expected prepayment speeds, discount rates and costs of servicing may change less frequently as they are less sensitive to near-term market conditions.

Prepayment speeds may be affected by economic factors such as home price appreciation, market interest rates, the availability of other credit products to our borrowers and customer payment patterns. Prepayment speeds include the impact of all borrower prepayments including full payoffs, additional principal payments and the impact of loans paid off due to foreclosure liquidations. As market interest rates decline, prepayment speeds will generally increase as customers refinance existing mortgages under more favorable interest rate terms. As prepayment speeds increase, anticipated cash flows will generally decline resulting in a potential reduction, or impairment, to the fair value of the capitalized MSRs. Alternatively, an increase in market interest rates may cause a decrease in prepayment speeds, and an increase in fair value of MSRs. Many of our loans include prepayment penalties during the first two to three years. Prepayment penalties tend to lower prepayment speeds during the early life of our loans, regardless of market interest rate movements, therefore decreasing the sensitivity of expected prepayment speeds to changes in interest rates. Prepayment speeds are estimated based on historical experience. Changes are made as necessary to ensure such estimates reflect current market conditions specific to our individual MSR stratas.

Discount rates are determined by reviewing market rates used by market participants. These rates may vary based on economic factors such as market perception of risk and changes in the risk-free interest rates. Changes are made as necessary to ensure such estimates reflect current market conditions for MSR assets.

Costs to service includes the cost of processing loan payments, making payments to bondholders, collecting delinquent accounts

and administrative foreclosure activities. Market trends and changes to underlying expenses are evaluated to determine if updates to assumptions are necessary. The economic factors affecting costs to service include unemployment rates, the housing market and the cost of labor. Higher unemployment rates may lead to higher delinquency and foreclosure rates resulting in higher costs to service loans. The housing market, including home price appreciation rates, impacts sale prices for homes in foreclosure and our borrowers' ability to refinance or sell their properties in the event that they can no longer afford their homes, thus impacting delinquencies and foreclosures.

Ancillary fees and income include late charges, non-sufficient funds fees, collection fees and interest earning funds held in deposit. These fees could be impacted by state legislation efforts, customer behavior, fee waiver policies and industry trends.

During the period from May 1, 2005 to April 30, 2007, assumptions used in valuing MSRs were updated. The significant changes and their impact, both in dollars and basis points of loans sold during the quarter of initial implementation, are outlined below beginning with the most recent changes.

(dollars in 000s)

Assumption	Change	Impact	Quarter Implemented
Discount rates	18% to 20%	($1,260) or (2) basis points	April 30, 2007
Prepayment rates	Further stratification of prepayment rates	$4,428 or 8 basis points	January 31, 2007
Ancillary fees	Decreased average number of days of interest collected related to prepayments	($3,677) or (5) basis points	July 31, 2006
Discount rate	15% to 18%	($2,555) or (3) basis points	January 31, 2006
Costs to service	Decreased the number of days of interest paid to investors	$12,893 or 11 basis points	October 31, 2005

During fiscal year 2007 we updated our assumptions related to loan prepayment rates to further stratify by vintage year, loan type, and loans with and without prepayment penalties. We also updated assumptions surrounding investor remittances during the current year, and increased the discount rate assumption used to determine the fair value of MSRs from 18% to 20% as a result of an analysis of third-party data including rates used by other market participants. During fiscal year 2007, we also updated our assumption related to the average number of days of interest collected on funds received as a result of prepayments (Ancillary fees on the table above). We decreased the average number of days of interest collected following a review of the servicing portfolio data. While costs to service increase due to increases in delinquencies and foreclosures, this increase was offset by higher late fee income. During fiscal year 2006, we increased the discount rate assumption used to determine the fair value of MSRs from 15% to 18% as a result of an analysis of third-party data including rates used by other market participants. During fiscal year 2006, we also updated our assumption for number of days of interest paid to investors (Costs to service on the table above) on monthly loan prepayments upon the completion of a review of the historical performance of the servicing portfolio. The cumulative net impact of the changes outlined above made during the period from May 1, 2006 to April 30, 2007 was an increase of approximately 1 basis point for MSRs initially recorded in fiscal year 2007 compared to the prior year.

The updated assumptions outlined above are applied not only when we determine the allocated historical cost of MSRs, but are also used in our evaluation of the fair value of the MSR portfolio in conjunction with our impairment review. The changes in assumptions primarily impact the recognition of our initial MSR value through calculation of the gain on sale of mortgage assets. Because MSRs are recorded at LOCOM, we are unable to adjust our MSR portfolio value upward, thus have not recognized the positive impact of the assumption changes on the MSR portfolio as a whole.

MSRs with a book value of $253.1 million are included in our consolidated balance sheet at April 30, 2007. While changes in any assumption could impact the value of our MSRs, the table below shows the significant drivers and the effect of a variation of a particular assumption on the fair value of our MSRs without changing any other assumptions. In reality, changes in one factor may result in changes in another, which might magnify or counteract the sensitivities.

Assumption	% Impact on Fair Value
Prepayments (including defaults):	
Adverse 10%	(9%)
Adverse 20%	(17%)
Discount rate:	
Adverse 10%	(3%)
Adverse 20%	(6%)
Ancillary fees and income:	
Adverse 10%	(5%)
Adverse 20%	(10%)
Costs to service:	
Adverse 10%	(5%)
Adverse 20%	(9%)

VALUATION OF MORTGAGE LOANS HELD FOR SALE — Determining the fair value of loans held for sale requires us to make estimates of losses that are highly uncertain and requires a high degree of judgment.

Loans held for sale are carried at the lower of amortized cost or fair value. We determine the fair value of loans based primarily on estimated market prices considering underlying loan defects, if any. Our estimates may vary depending on the creditworthiness of the borrower and economic factors such as home price appreciation and interest rates. Changes in our estimates can affect our operating results.

OTHER SIGNIFICANT ACCOUNTING POLICIES — Other significant accounting policies, not involving the same level of judgment or 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.

FINANCIAL CONDITION —

CAPITAL RESOURCES & LIQUIDITY

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 — Cash used in operations totaled $584.7 million for fiscal year 2007, compared to cash provided of $594.1 million and $514.4 million in 2006 and 2005, respectively. Operating cash flows in fiscal year 2007 decreased from fiscal year 2006 primarily due to net losses and higher income tax payments. Income tax payments totaled $405.4 million this year, compared to $270.5 million in fiscal year 2006.

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 exercise of stock options totaled $25.7 million, $98.5 million and $129.3 million in fiscal years 2007, 2006 and 2005, respectively.

DEBT — In April 2007, we obtained a $500.0 million credit facility to provide funding for the $500.0 million of 8½% Senior Notes which were due April 16, 2007. This facility matures on December 20, 2007.

Commercial paper borrowings outstanding at April 30, 2007 totaled $1.0 billion and were primarily used to fund working capital needs.

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 $172.0 million, $160.0 million and $143.0 million in fiscal years 2007, 2006 and 2005, respectively.

Our Board of Directors approved an increase of the quarterly cash dividend from 13.5 cents to 14.25 cents per share, a 5.6% increase, effective with the quarterly dividend payment on October 1, 2007 to shareholders of record on September 10, 2007.

SHARE REPURCHASES — On June 7, 2006, our Board approved an authorization to repurchase 20.0 million shares. On June 9, 2004, our Board of Directors approved an authorization to repurchase 15 million shares. During fiscal year 2007, we repurchased 8.1 million shares pursuant to these authorizations at an aggregate price of $180.9 million or an average price of $22.22 per share. There were 22.4 million shares remaining under these authorizations at the end of fiscal year 2007.

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

Due to our efforts to meet our regulatory capital requirements, we do not expect to be able to repurchase shares until the fourth quarter of fiscal year 2008. The significant losses in our mortgage operations during fiscal year 2007 and normal seasonal operating losses during the first eight months of fiscal year 2008 are expected to cause us to be non-compliant with our capital requirements until the end of fiscal year 2008. See additional discussion of our regulatory capital requirements in “Regulatory Environment.”

ACQUISITIONS — From time to time we acquire businesses that we view to be a good strategic fit to our organization. Total cash paid for acquisitions was $57.6 million,

$210.1 million and $23.3 million during fiscal years 2007, 2006 and 2005, respectively.

RESTRICTED CASH — We hold certain cash balances that are restricted as to use. Cash and cash equivalents — restricted totaled $332.6 million at fiscal year end. Consumer Financial Services held $329.0 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.

A condensed consolidating statement of cash flows by segment for the fiscal year ended April 30, 2007 follows. Generally, interest is not charged on intercompany activities between segments. Our consolidated statements of cash flows are located in Item 8.

(in 000s)

	Tax Services	Business Services	Consumer Financial Services	Corporate	Discontinued Operations	Consolidated H&R Block
Cash provided by (used in):						
Operations	**$ 415,509**	**$ 112,189**	**$ 2,751**	**$ (379,879)**	**$ (735,294)**	**$ (584,724)**
Investing	**(91,929)**	**(19,500)**	**(1,005,120)**	**(57,189)**	**15,362**	**(1,158,376)**
Financing	**(11,109)**	**(11,184)**	**1,298,768**	**662,215**	**52,421**	**1,991,111**
Net intercompany	**(332,762)**	**(71,492)**	**(265,660)**	**2,403**	**667,511**	**—**

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 $415.5 million in operating cash flows primarily related to net income, as cash is generally collected from clients at the time services are rendered. Cash used in investing activities of $91.9 million was for capital expenditures and business acquisitions.

Our international operations are generally self-funded. Cash balances are held in Canada and Australia 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, 2007, there was no commercial paper outstanding. The peak borrowing during fiscal year 2007 was $135.0 million (Canadian).

BUSINESS SERVICES – Business Services' funding requirements are largely related to receivables for completed work and "work in process" and funding relating to acquired businesses. 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 "Contractual Obligations and Commercial Commitments."

This segment generated $112.2 million in operating cash flows primarily related to net income. Additionally, Business Services used $19.5 million in investing activities primarily related to capital expenditures, and $11.2 million in financing activities as a result of payments on acquisition debt.

CONSUMER FINANCIAL SERVICES – In fiscal year 2007, Consumer Financial Services used $1.0 billion in investing activities primarily due to the purchase of mortgage loans from OOMC. Cash provided by financing activities of $1.3 billion is due to customer deposits.

To manage short-term liquidity, Block Financial Corporation (BFC) provides HRBFA a $300.0 million unsecured credit facility. At the end of fiscal year 2007 there was no outstanding balance on this facility.

HRBFA has two secured lines of credit with an unaffiliated financial institution with a total credit limit of $51.0 million. There were no borrowings on these lines of credit during fiscal years 2007 or 2006 and no outstanding balance at April 30, 2007 or 2006.

Liquidity needs relating to client trading and margin-borrowing activities are met primarily through cash balances in client brokerage accounts and working capital. 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 2007 totaled $47.0 million, an excess of $11.5 million over the margin requirement. Pledged securities at the end of fiscal year 2006 totaled $53.0 million, an excess of $9.9 million over the margin requirement.

HRB Bank's current liquidity needs are generally met through deposits from banking clients. HRB Bank has access to

traditional funding sources such as deposits, federal funds purchased, and repurchase agreements. HRB Bank maintains a credit facility with the Federal Home Loan Bank (FHLB). At April 30, 2007, $179.0 million was drawn under this facility.

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

We believe the funding sources for Consumer Financial 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 and maintaining sufficient capital levels at HRB Bank.

DISCONTINUED OPERATIONS – Our discontinued operations primarily generate cash as a result of the sale and securitization of mortgage loans and residual interests and as residual interests mature. Our discontinued operations used $735.3 million in cash from operating activities primarily due to operating losses. Our discontinued operations provided $15.4 million in cash from investing activities primarily related to cash received from the maturity and sales of AFS residual interests. Cash provided by financing activities of $52.4 million reflects an on-balance sheet securitization during fiscal year 2007.

We regularly sell loans as a source of liquidity. Loan sales in fiscal year 2007 were $27.5 billion compared with $40.3 billion in fiscal year 2006. Additionally, BFC provides a line of credit of at least $150 million for working capital needs. At the end of fiscal year 2007 there was $811.9 million outstanding on this facility.

To finance our prime mortgage loan originations, HRBMC uses a warehouse facility with capacity up to $25.0 million. This annual facility bears interest at one-month LIBOR plus 140 to 200 basis points. As of April 30, 2007 and 2006, the balance outstanding under this facility was $0.4 million and $1.6 million, respectively, and is included in current liabilities held for sale on the consolidated balance sheets.

See discussion of our non-prime warehouse facilities and waivers of certain covenants below in “Off-Balance Sheet Financing Arrangements.”

We believe the sources of liquidity available to our mortgage operations 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.

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 had commitments to fund mortgage loans of $2.4 billion and $4.0 billion at April 30, 2007 and 2006, 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.

The Trusts 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 free up cash and short-term borrowing capacity, improve liquidity and flexibility, and reduce 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. Loans totaling $1.5 billion and $7.8 billion were held by the Trusts as of April 30, 2007 and 2006, respectively, and were not recorded on our consolidated balance sheets. The Trusts purchase the loans from us using committed warehouse facilities, arranged by us, totaling $9.3 billion in the aggregate. These facilities are subject to various OOMC performance triggers, limits and financial covenants, including tangible net worth, income and leverage ratios and may be subject to margin calls. We hold an interest in the Trusts equal to the difference between the fair value of the assets and cash proceeds, adjusted for contractual advance rates, received from the Trusts. In addition to a margin call feature, loans sold to the Trust are subject to repurchase if certain criteria are not met, including loan default provisions. Unfavorable fluctuations in loan value are guaranteed up to 10% of the original fair value.

These facilities also 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 $2.0 billion bring total capacity to $11.3 billion at April 30, 2007.

As of April 30, 2007, OOMC did not meet the “minimum net income” financial covenant contained in certain of its committed warehouse facilities. This covenant requires OOMC to maintain a cumulative minimum net income of at least $1 for the four consecutive fiscal quarters ended April 30, 2007. On April 27, 2007, OOMC obtained waivers of the minimum net income financial covenants from all of the warehouse facility providers. These waivers extend through various dates as discussed below. Two waivers are subject to OOMC having a specified amount of total warehouse capacity. If we do not obtain extensions of facilities and waivers that expire before July 31, 2007 or expand existing capacity, we would be in violation of this warehouse capacity requirement.

OOMC will not meet this financial covenant at July 31, 2007. We have, however, obtained waivers from a sufficient number of warehouse providers to allow OOMC to continue to fund loans using its off-balance sheet financing facilities. At our current origination levels, we estimate we would only need waivers for between $3.0 billion and $4.0 billion of available capacity at any given time. However, the sale of OOMC is subject to various closing conditions, including that OOMC maintain at least $8.0 billion of total capacity in its warehouse facilities throughout the period to the closing date (of which at least $2.0 billion is to be in the form of unused capacity at the closing date).

If OOMC cannot obtain extensions or the waivers, warehouse facility providers would have the right to terminate their future funding obligations under the applicable warehouse facilities, terminate OOMC’s right to service the loans remaining in the applicable warehouse or request funding of the 10% guarantee. This termination could adversely impact OOMC’s ability to fund new loans and our ability to complete the OOMC sales transaction. See Item 8, note 20 to our consolidated financial statements.

Waivers of the minimum net income financial covenant obtained by OOMC on April 27, 2007 expire as follows:

	(in 000s)
Expiration Date	Amount
July 30, 2007	$2,250,000
July 31, 2007	1,500,000
October 2, 2007	1,000,000
October 31, 2007	2,002,000
January 15, 2008	500,000
April 25, 2008	2,000,000

During fiscal year 2007, we amended our warehouse facility with Citigroup Global Markets Realty Corp (Citigroup) to split OOMC’s existing warehouse financing arrangement with Citigroup into two separate warehouse facilities, one of which is an on-balance sheet facility with capacity of $500.0 million and the other an off-balance sheet facility. Loans totaling $52.7 million were held on the on-balance sheet line at April 30, 2007, with the related loans and liability reported in assets and liabilities held for sale.

When we sell loans to the Trusts, we remove the mortgage loans from our balance sheet and record the gain or loss on the sale, cash proceeds, MSRs, repurchase 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 $41.1 million and $188.0 million at April 30, 2007 and 2006, 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 of the beneficial interest holders to complete a loan sale or a securitization is dependent on market conditions.

For fiscal year 2007, the final disposition of loans sold by the Trusts was 61% loan sales and 39% securitizations. For fiscal year 2006, the final disposition of loans sold by the Trusts was 77% loan sales and 23% 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. Loans sold through whole loan transactions will generally include first payment to the investor provisions that, in the past, have not been included in securitization transactions. The overall value of the transaction is analyzed when determining the disposal strategy. The loan sale market has improved since April 30, 2007 and, as a result, we have committed to several whole loan sale transactions.

If the Trusts sell the mortgage loans in a loan sale, we receive cash for our beneficial interest in Trusts, but continue to maintain repurchase reserves. 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. AFS 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 20 to our consolidated financial statements.

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, 2007:

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

The following chart provides the debt ratings for Block Canada as of April 30, 2007:

	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 $2.0 billion in January 2007 related to working capital needs and funding of our participation interests in IMALs. As of April 30, 2007, outstanding CP totaled $1.0 billion. No CP was outstanding at April 30, 2006.

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. In addition, the CLOCs require that we reduce the aggregate outstanding principal amount of short-term debt, as defined in the agreement, to $200.0 million or less for a minimum period of thirty consecutive days during the period from March 1 to June 30 of each year (the “Cleandown Requirement”). We obtained a waiver of the Cleandown Requirement for 2007. See Item 8, note 8 to the consolidated financial statements for additional information.

We entered into a $3.0 billion line of credit agreement with HSBC Finance Corporation effective January 2, 2007 for use as a funding source for the purchase of RAL participations. This line was secured by our RAL participations. All borrowings on this facility were repaid as of April 30, 2007 and the facility is now closed.

We entered into a $300.0 million committed line of credit agreement with BNP Paribas for the period January 2 through February 23, 2007 to cover our peak liquidity needs. Both the HSBC and BNP Paribas lines were subject to various covenants that were similar to our primary unsecured CLOCs. This facility expired in February 2007.

These facilities were undrawn at April 30, 2007. 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 November 2007. This CLOC was undrawn at April 30, 2007.

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. 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, 2007 is as follows:

(in 000s)

	Total	Less Than 1 Year	1 - 3 Years	4 - 5 Years	After 5 Years
Commercial paper and other short-term borrowings	**$ 1,567,082**	**$ 1,567,082**	**$ —**	**$ —**	**$ —**
Customer deposits	**1,129,263**	**1,052,409**	**613**	**279**	**75,962**
Debt	**502,236**	**—**	**104,000**	**—**	**398,236**
Media advertising purchase obligation	**37,749**	**20,589**	**17,160**	**—**	**-**
Acquisition payments	**13,964**	**8,907**	**4,148**	**818**	**91**
Retirement obligation assumed	**12,861**	**2,177**	**4,463**	**4,037**	**2,184**
Capital lease obligation	**12,911**	**397**	**1,032**	**1,091**	**10,391**
Operating leases	**870,225**	**256,555**	**377,484**	**158,405**	**77,781**
Total contractual cash obligations	**$ 4,146,291**	**$ 2,908,116**	**$ 508,900**	**$ 164,630**	**$ 564,645**

Short-term borrowings are used to finance temporary liquidity needs and various financial activities. Our short-term borrowings at April 30, 2007 totaled $1.6 billion, and consisted of $1.0 billion in commercial paper, $500.0 million drawn on a new credit facility and $75.0 million in FHLB advances.

In April 2007, we obtained a $500.0 million credit facility to provide funding for the $500.0 million of 8½% Senior Notes which were due April 16, 2007. This facility matures on December 20, 2007.

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 6¾% 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.

As of April 30, 2007, we had $850.0 million remaining under our shelf registration for additional debt issuances.

On November 1, 2006 we entered into an agreement to purchase $57.2 million in media advertising between November 1, 2006 and June 30, 2009. During the current year, we purchased $19.4 million in advertising for our retail tax business, leaving a remaining commitment of $37.7 million at April 30, 2007.

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, 2007, 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	**$ 2,374,938**	**$ 2,374,938**	**$ —**	**$ —**	**$ —**
Franchise Equity Lines of Credit	**79,628**	**25,553**	**31,316**	**22,489**	**270**
Commitment to fund M&P	**75,000**	**75,000**	**—**	**—**	**—**
Pledged securities	**47,048**	**47,048**	**—**	**—**	**—**
Contingent acquisition payments	**19,891**	**5,486**	**6,330**	**8,075**	**—**
Other commercial commitments	**5,653**	**1,724**	**3,447**	**482**	**—**
Total commercial commitments	**$ 2,602,158**	**$ 2,529,749**	**$ 41,093**	**$ 31,046**	**$ 270**

See discussion of commitments in Item 8, note 18 to our consolidated financial statements.

REGULATORY ENVIRONMENT

In March 2006, the OTS approved the federal savings bank charter of HRB Bank. HRB Bank commenced operations on May 1, 2006, at which time H&R Block, Inc. became a savings and loan holding company. As a savings and loan holding company, H&R Block, Inc. is subject to regulation by the OTS. Federal savings banks are subject to extensive regulation and examination by the OTS, their primary federal regulator, as well as the FDIC. In conjunction with H&R Block, Inc.'s application with the OTS for HRB Bank, we made commitments as part of our charter approval order (Master Commitment) which included, but were not limited to: (1) a three percent minimum ratio of adjusted tangible capital to adjusted total assets, as defined by the OTS; (2) maintain all

HRB Bank capital within HRB Bank in accordance with the submitted three-year business plan; and (3) follow federal regulations surrounding intercompany transactions and approvals. We fell below the three percent minimum ratio at April 30, 2007. Normal seasonal operating losses are also expected to cause us to be in non-compliance until the end of fiscal year 2008. We notified the OTS of our failure to meet this requirement, and of our expectations for fiscal year 2008. We submitted a preliminary revised capital plan to the OTS that provides for us to regain compliance with the three percent minimum capital requirement by April 30, 2008. The preliminary revised capital plan contemplates that we will meet the minimum capital requirement primarily through earnings generated by our normal business operations in fiscal year 2008. On May 29, 2007, the OTS issued a Supervisory Directive, in which the OTS granted approval of our preliminary revised capital plan. Included in the Supervisory Directive were additional conditions that we will be required to meet in addition to the Master Commitment. The significant additional conditions included in the Supervisory Directive are as follows: (1) requires HRB Bank to extend its compliance with a minimum 12.0% leverage ratio through fiscal year 2012; (2) requires H&R Block, Inc. to comply with the Master Commitment at all times, except as provided herein, and at no time may we have capital lower than projected in the preliminary revised capital plan for the period May 2007 through April 2009; (3) institutes reporting requirements to the OTS quarterly and monthly by the Board of Directors and management, respectively; and (4) requires HRB Bank's Board of Directors to have an independent chairperson and at least the same number of outside directors as inside directors.

We plan to submit our formal plan with approval from our Board of Directors to the OTS by July 31, 2007. The OTS is aware that the primary difference between our preliminary revised capital plan and the final plan to be submitted is the beginning capital levels as of April 30, 2007, as our fiscal year results were not final at the time the preliminary revised capital plan was submitted to the OTS, and they have indicated that the final plan submitted must meet the three percent requirement by April 30, 2008 to be approved. Failure to meet the conditions under our charter-approval order and the Supervisory Directive could result in the OTS taking further regulatory actions, such as a supervisory agreement, cease-and-desist orders and civil monetary penalties. At this time, the financial impact, if any, of additional regulatory actions cannot be determined. If we are not in a position to cure deficiencies, a resulting failure could impair our ability to repurchase shares of our common stock, acquire businesses and pay dividends.

Achievement of the capital plan depends on future events and circumstances, the outcome of which cannot be assured. Nevertheless, at this time we believe that we will meet all of the OTS provisions agreed to by July 31, 2007. See additional discussion related to this requirement in Item 1A, under "Regulatory Environment – Banking."

All savings associations are subject to the capital adequacy guidelines and the regulatory framework for prompt corrective action. HRB Bank must meet specific capital guidelines that involve quantitative measures of HRB Bank's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. HRB Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. See Item 8, note 17 to the consolidated financial statements for additional discussion of regulatory capital requirements and classifications.

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

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 HRBFA to maintain net capital equal to the greater of $1.0 million 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 2007, HRBFA's net capital of $122.0 million, which was 27.8% of aggregate debit items, exceeded its minimum required net capital of $8.8 million by $113.2 million. During fiscal year 2007, HRBFA paid a dividend of $20.0 million to BFC, its direct corporate parent. HRBFA was in excess of the minimum net capital requirement during fiscal years 2007 and 2006. During

fiscal year 2006, we contributed additional capital of $5.0 million to HRBFA.

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 advisers, banking, accountants and the accounting practice. We seek to determine the applicability of such statutes, ordinances, rules and regulations (collectively, "Laws") and comply with those Laws.

From time to time in the ordinary course of business, we receive inquiries from governmental and self-regulatory agencies regarding the applicability of Laws to our services and products. In response to past inquiries, we have agreed to comply with such Laws, convinced the authorities that such Laws were not applicable or that compliance already exists, and/or modified our activities in the applicable jurisdiction to avoid the application of all or certain parts of such Laws. We believe 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 19 to our consolidated financial statements.

STATISTICAL DISCLOSURE BY BANK HOLDING COMPANIES

This section presents information required by the SEC's Industry Guide 3, "Statistical Disclosure by Bank Holding Companies." The tables in this section include HRB Bank information only, which commenced operations during the current fiscal year and therefore, only one year of data is presented.

DISTRIBUTION OF ASSETS, LIABILITIES AND SHAREHOLDERS' EQUITY; INTEREST RATES AND INTEREST DIFFERENTIAL – The following table presents average balance data and interest income and expense data for our banking operations, as well as the related interest yields and rates for fiscal year 2007:

(dollars in 000s)

	Average Balance	Interest Income/ Expense	Average Yield/ Cost
Interest-earning assets:			
Loans, net	**$ 746,387**	**$ 50,767**	**6.80%**
Available-for-sale investment securities	**24,405**	**1,389**	**5.69%**
Federal funds sold	**91,975**	**4,747**	**5.16%**
FHLB stock	**970**	**20**	**2.11%**
	863,737	**$ 56,923**	**6.59%**
Noninterest-earning assets	**24,583**		
Total HRB Bank assets	**$ 888,320**		
Interest-bearing liabilities:			
Customer deposits	**$ 700,707**	**$ 32,128**	**4.59%**
FHLB borrowing	**16,055**	**832**	**5.18%**
	716,762	**$ 32,960**	**4.60%**
Non-interest-bearing liabilities	**6,007**		
Total liabilities	**722,769**		
Total shareholders' equity	**165,551**		
Total liabilities and stockholders' equity	**$ 888,320**		
Net yield on interest-earning assets		**$ 23,963**	**2.70%**

The maximum amount of FHLB advances outstanding during fiscal year 2007 was $179.0 million.

INVESTMENT PORTFOLIO – The following table shows the cost basis, fair values, scheduled maturities, carrying values and current yields for HRB Bank's investment portfolio at April 30, 2007:

(dollars in 000s)

			Less Than One Year		One to Five Years		After Five Years		Total	
	Cost Basis	Fair Value	Balance Due	Average Yield	Balance Due	Average Yield	Balance Due	Average Yield	Balance Due	Average Yield
Mortgage-backed securities	$ 35,122	$ 35,084	$ —	—%	$ —	—%	$ 35,122	5.65%	$ 35,122	5.65%
Federal funds sold	53,946	53,946	53,946	5.22%	—	—%	—	—%	53,946	5.22%
FHLB stock	9,091	9,091	—	—%	—	—%	9,091	4.25%	9,091	4.25%
Trust preferred securities	3,500	3,500	—	—%	—	—%	3,500	6.40%	3,500	6.40%
	$ 101,659	$ 101,621	$ 53,946		$ —		$ 47,713		$ 101,659	

LOAN PORTFOLIO AND RELATED ALLOWANCE FOR CREDIT LOSSES – The following table shows the composition of HRB Bank's mortgage loan portfolio as of April 30, 2007 and the related contractual maturities:

(in 000s)

		Maturity Dates		
	Value as of April 30, 2007	Within One Year	One to Five Years	More than Five Years
Residential real estate mortgages	$ 1,350,612	$ —	$ 180	$ 1,350,432
Home equity lines of credit	280	—	—	280
	$ 1,350,892	$ —	$ 180	$ 1,350,712
Fixed-rate loans	$ 311,516	$ —	$ 180	$ 311,336
Adjustable-rate loans	1,039,376	—	—	1,039,376
	$ 1,350,892	$ —	$ 180	$ 1,350,712
Non-accrual loans	$ 22,909			
Loans past due 90 days or more	22,909			

A rollforward of HRB Bank's allowance for loan loss is as follows:

(dollars in 000s)

Balance at beginning of period	$ —
Provision	3,622
Recoveries	—
Charge-offs	(174)
Balance at end of period	$ 3,448
Ratio of net charge-offs to average loans outstanding during the year	0.02%

DEPOSITS – The following table shows HRB Bank's average deposit balances and the average rate paid on those deposits for fiscal year 2007:

(dollars in 000s)

	Average Balance	Average Rate
Money market and savings	$ 509,915	5.46%
Interest-bearing checking accounts	75,077	4.96%
IRAs	10,534	5.05%
Certificates of deposit	578	5.06%
	596,104	5.39%
Noninterest-bearing deposits	104,603	
	$ 700,707	

RATIOS – The following table shows certain of HRB Bank's key ratios for fiscal year 2007:

Pretax return on assets	**2.60%**
Pretax return on equity	**13.95%**
Equity to assets ratio	**11.59%**

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.

Discontinued Operations – Origination Margin (dollars in 000s)

Year Ended April 30,	**2007**	2006	2005
Total expenses	**$ 1,307,582**	$ 981,137	$ 783,548
Add: Expenses netted against gain on sale revenues	**171,374**	387,911	378,304
Less:			
Cost of services	**380,186**	351,676	253,461
Cost of acquisition	**36,703**	150,981	169,621
Allocated support departments	**29,323**	26,176	24,161
Impairment of assets	**350,878**	—	—
Other	**113,126**	63,149	21,633
Total cost of origination	**$ 568,740**	$ 777,066	$ 692,976
Divided by origination volume	**$27,073,467**	$40,779,763	$31,001,724
Cost of origination	**2.10%**	1.91%	2.23%

Banking Ratios (dollars in 000s)

Year Ended April 30,	**2007**
Efficiency Ratio:	
Total Consumer Financial Services expenses	**$ 325,709**
Less: Interest and non-banking expenses	**309,498**
Non-interest banking expenses	**$ 16,211**
Total Consumer Financial Services revenues	**$ 388,090**
Less: Non-banking revenues and interest expense	**343,876**
Banking revenue – net of interest expense	**$ 44,214**
	37%
Net Interest Margin:	
Net banking interest revenue	**$ 23,963**
Divided by average earning assets	**$ 888,320**
	2.70%
Pretax Return on Average Assets:	
Total Consumer Financial Services pretax income	**$ 19,811**
Less: Non-banking pretax loss	**(3,275)**
Pretax banking income	**$ 23,086**
Divided by average assets	**$ 888,320**
	2.60%

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 AFS securities, which are primarily affected by credit quality and movements in interest rates. These guidelines focus on managing liquidity and preserving principal and earnings. 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, 2007, 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 Consumer Financial Services and Discontinued Operations.

Our short-term borrowings at April 30, 2007 totaled $1.6 billion, and consisted of $1.0 billion in commercial paper, $500.0 million drawn on a new credit facility and $75.0 million in FHLB advances. For fiscal year 2007, the average issuance

term of our commercial paper was 45 days and the average outstanding balance was $1.0 billion. As commercial paper and bank borrowings are generally seasonal, interest rate risk typically increases through our third fiscal quarter and declines to zero by fiscal year-end. However, at April 30, 2007, $1.0 billion in commercial paper was outstanding due to working capital needs, primarily due to operating losses in our mortgage operations. In April 2007, we obtained a $500.0 million credit facility to provide funding for the $500.0 million of 8½% Senior Notes which were due April 16, 2007. The facility, which was fully drawn at closing, matures on December 20, 2007. While the market value of short-term borrowings is relatively insensitive to interest rate changes, interest expense on short-term borrowings will increase and decrease with changes in the underlying short-term interest rates. See Item 7, "Financial Condition" for additional information.

Our long-term debt at April 30, 2007 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 10 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, 2007 and 2006, 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 $12.5 million and $11.6 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 and the Australian dollar. We translate revenues and expenses related to these operations at the average of exchange rates in effect during the period. Assets and liabilities of foreign subsidiaries are translated into U.S. dollars at exchange rates prevailing at the end of the year. Translation adjustments are recorded as a separate component of other comprehensive income in stockholders' equity. Translation of financial results into U.S. dollars does not presently materially affect, and has not historically materially affected, our consolidated financial results, although such changes do affect the year-to-year comparability of the operating results in U.S. dollars of our international businesses. We estimate a 10% change in foreign exchange rates by itself would impact consolidated pretax income in fiscal years 2007 and 2006 by approximately $2.5 million and $2.1 million, respectively, and cash balances at April 30, 2007 and 2006 by $5.9 million and $6.1 million, respectively.

CONSUMER FINANCIAL SERVICES

INTEREST RATE RISK – BANKING – At April 30, 2007, approximately 91% of HRB Bank's total assets were residential mortgage loans, with 23% of these fixed-rate and 77% adjustable-rate. These loans are sensitive to changes in interest rates, as well as expected prepayment levels. As interest rates increase, fixed rate residential mortgages tend to exhibit lower prepayments. The opposite is true in a falling rate environment. When mortgage loans prepay, mortgage origination costs are written off. Depending on the timing of the prepayment, the write-offs of mortgage origination costs may result in lower than anticipated yields.

At April 30, 2007, HRB Bank's other investments consisted primarily of mortgage-backed securities and FHLB stock. See table below for sensitivity analysis of our mortgage-backed securities.

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

Under criteria published by the OTS, HRB Bank's overall interest rate risk exposure at April 30, 2007 was characterized as "minimal." We actively manage our interest rate risk positions. As interest rates change, we will adjust our strategy and mix of assets and liabilities to optimize our position.

INTEREST RATE RISK – BROKER-DEALER – 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, 2007 was approximately $11.0 million, net of $0.2 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.

DISCONTINUED OPERATIONS

INTEREST RATE RISK AND CREDIT SPREADS – NON-PRIME ORIGINATIONS – Interest rate changes and credit spreads 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 or loss on sale, cash proceeds, MSRs, repurchase 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, 2007, there were $1.5 billion of loans held in the Trusts and the value of our beneficial interest in Trusts was $41.1 million. At April 30, 2007, we had $222.8 million of mortgage loans held for sale on our balance sheet. Approximately half of these loans were repurchased from whole loan investors or the Trusts. Changes in interest rates and other market factors including credit spreads may result in a change in value of our beneficial interest in Trusts and mortgage loans held for sale.

We are impacted by changes in the market impacting loan sale prices including interest rates, credit spreads and other factors. We are exposed to interest rate risk and credit spreads associated with commitments to fund approved loan applications of $2.4 billion, subject to conditions and loan contract verification. In addition, we have interest rate risk related to $169.9 million in new loan applications which have not yet been approved, and $425.0 million of applications which we expect to receive prior to our next anticipated change in rates charged to borrowers. Of these amounts, we estimate only $1.6 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 our commitment to fund non-prime loans. In addition, forward loan sale commitments reduce our exposure to credit spreads. Changes in credit spread are derived from investor demand and competition for available funds. Investor demand can be impacted by sector performance and loan collateral performance. Sector performance factors include the stability of the industry and individual competitors. Uncertainty regarding the ability of the industry as a whole to meet repurchase obligations could impact credit spread demands by investors. Loan collateral performance or anticipated performance can be driven by actual performance of the collateral or by market-related factors impacting the industry as a whole. Interest rate risk is managed through the use of forward loan sale commitments, interest rate swaps and put options on Eurodollar futures. Credit spread risk can be reduced using forward loan sale commitments. However, locking into these commitments eliminates the potential for price adjustments.

Forward loan sale commitments represent our 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. The Trusts may fulfill these obligations in response to the exercise of a put option by the third-party beneficial interest holders. At April 30, 2007, we had no forward loan sale commitments. Forward loan sale commitments lock in the execution price on the loans that will be ultimately delivered into a loan sale.

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, 2007, the interest rate swaps and put options provided interest risk coverage of $3.1 billion. At April 30, 2007, we recorded $10.8 million in assets and $37.1 million in liabilities on our balance sheet related to changes in fair value of 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, 2007, we had commitments to fund prime mortgage loans totaling $66.4 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, 2007, we recorded a liability with a fair value of $1.0 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, 2007 we recorded an asset of $0.1 million related to these instruments.

To finance our prime originations, we use a warehouse facility with capacity up to $25.0 million, which bears interest at one-month LIBOR plus 140 to 200 basis points. As of April 30, 2007, the balance outstanding under this facility was $0.4 million.

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 ongoing 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, 2007 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 and swaps. See Item 8, note 20 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 based on individual risk stratas. See Item 7, “Critical Accounting Policies” and Item 8, note 20 to our consolidated financial statements for further sensitivity analysis of other MSR valuation assumptions.

The sensitivities of certain financial instruments to changes in interest rates as of April 30, 2007 and 2006 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, 2007	Basis Point Change					
		-300	-200	-100	+100	+200	+300
Mortgage loans held for investment	**$ 1,358,222**	**$ 39,634**	**$ 32,444**	**$ 22,129**	**$ (29,013)**	**$ (60,262)**	**$ (98,526)**
Mortgage loans held for sale	**222,810**	**13,414**	**8,883**	**4,399**	**(4,277)**	**(8,207)**	**(10,977)**
Residual interests in securitizations – AFS	**90,283**	**4,460**	**434**	**(516)**	**1,488**	**2,248**	**681**
Residual interests in securitizations – trading	**72,691**	**(5,572)**	**(3,697)**	**(1,759)**	**1,277**	**1,865**	**1,676**
Beneficial interest in Trusts – trading	**41,057**	**61,977**	**39,922**	**18,411**	**(16,898)**	**(32,325)**	**(49,512)**
Mortgage-backed securities	**35,084**	**(45)**	**(62)**	**(35)**	**(5)**	**(829)**	**(2,303)**
Fixed-income – trading (net)	**10,924**	**3,003**	**1,763**	**871**	**(805)**	**(1,522)**	**(2,129)**
Interest rate swaps	**10,774**	**(169,120)**	**(111,369)**	**(55,007)**	**53,688**	**106,090**	**157,240**
Investments at captive insurance subsidiary	**9,568**	**1,328**	**859**	**417**	**(394)**	**(766)**	**(1,118)**
Put options on Eurodollar futures	**1,212**	**(1,212)**	**(1,211)**	**(1,136)**	**5,015**	**13,283**	**21,989**

	Carrying Value at April 30, 2006	Basis Point Change					
		-300	-200	-100	+100	+200	+300
Mortgage loans held for investment	$ 407,538	$ 16,285	$ 10,885	$ 5,485	$ (5,301)	$ (9,592)	$ (15,020)
Mortgage loans held for sale	236,399	9,253	6,113	3,057	(3,146)	(6,356)	(8,866)
Beneficial interest in Trusts – trading	188,014	298,013	199,029	100,039	(103,365)	(189,389)	(270,970)
Residual interests in securitizations – AFS	159,058	32,692	13,543	4,795	(8,798)	(17,931)	(21,232)
Fixed-income – trading (net)	15,609	4,323	2,617	1,174	(1,359)	(2,368)	(3,274)
Interest rate swaps	8,831	(523,639)	(344,606)	(170,090)	165,791	327,397	484,929
Investments at captive insurance subsidiary	8,508	1,260	814	395	(372)	(723)	(1,054)
Put options on Eurodollar futures	3,282	(3,282)	(3,273)	(2,935)	12,389	28,256	44,673
Forward loan sale commitments	1,961	(158,345)	(105,563)	(52,782)	52,782	105,563	158,345

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.

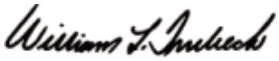
KPMG LLP audited our consolidated financial statements. Their audits were conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States).

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING –

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 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, 2007.

Based on our assessment, management concluded that, as of April 30, 2007, 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, 2007 and 2006, 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, 2007. 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, 2007 and 2006, and the results of their operations and their cash flows for each of the years in the three-year period ended April 30, 2007, in conformity with U.S. generally accepted accounting principles.

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, 2007, 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, 2007 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

Kansas City, Missouri
June 29, 2007

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, 2007, 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 U.S. 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 U.S. 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, 2007, is fairly stated, in all material respects, based on criteria established in *Internal Control—Integrated Framework* issued by 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, 2007, based on criteria established in *Internal Control—Integrated Framework* issued by 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, 2007 and 2006, 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, 2007, and our report dated June 29, 2007 expressed an unqualified opinion on those consolidated financial statements.

Kansas City, Missouri
June 29, 2007

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME –

(in 000s, except per share amounts)

Year Ended April 30,	2007	2006	2005
REVENUES –			
Service revenues	**$ 3,356,418**	$ 3,013,005	$ 2,620,066
Other revenues:			
Product and other revenues	**529,835**	492,245	476,969
Interest income	**135,021**	69,503	49,334
	4,021,274	3,574,753	3,146,369
OPERATING EXPENSES –			
Cost of services	**2,326,196**	2,068,795	1,800,324
Cost of other revenues	**182,262**	77,253	90,747
Selling, general and administrative	**852,954**	891,691	693,147
	3,361,412	3,037,739	2,584,218
Operating income	**659,862**	537,014	562,151
Non-operating interest expense	**(46,920)**	(49,059)	(62,367)
Other income, net	**22,856**	22,527	27,829
Income from continuing operations before income taxes	**635,798**	510,482	527,613
Income taxes	**261,461**	212,941	207,864
Net income from continuing operations	**374,337**	297,541	319,749
Net income (loss) from discontinued operations (including impairment of assets held for sale of $350,878 in 2007), net of tax	**(807,990)**	192,867	304,161
NET INCOME (LOSS)	**$ (433,653)**	$ 490,408	$ 623,910
BASIC EARNINGS PER SHARE –			
Net income from continuing operations	**$ 1.16**	$ 0.91	$ 0.96
Net income (loss) from discontinued operations	**(2.50)**	0.58	0.92
Net income (loss)	**$ (1.34)**	$ 1.49	$ 1.88
DILUTED EARNINGS PER SHARE –			
Net income from continuing operations	**$ 1.15**	$ 0.89	$ 0.95
Net income (loss) from discontinued operations	**(2.48)**	0.58	0.90
Net income (loss)	**$ (1.33)**	$ 1.47	$ 1.85
COMPREHENSIVE INCOME (LOSS) –			
Net income (loss)	**$ (433,653)**	$ 490,408	$ 623,910
Unrealized gains (losses) on securities, net of taxes:			
Unrealized holding gains (losses) arising during the period, net of taxes of $(5,072), $13,585 and $36,670	**(8,151)**	22,059	59,409
Reclassification adjustment for gains included in income, net of taxes of $11,120, $40,846 and $40,661	**(18,001)**	(66,188)	(65,848)
Change in foreign currency translation adjustments	**2,884**	(2,641)	8,946
	$ (456,921)	$ 443,638	$ 626,417

See accompanying notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS –

April 30,	(in 000s, except share and per share amounts) 2007	2006
ASSETS		
CURRENT ASSETS –		
Cash and cash equivalents	**$ 921,838**	$ 673,827
Cash and cash equivalents – restricted	**332,646**	385,439
Receivables from customers, brokers, dealers and clearing organizations, less allowance for doubtful accounts of $2,292 and $1,783	**410,522**	496,577
Receivables, less allowance for doubtful accounts of $99,259 and $64,433	**556,255**	475,296
Prepaid expenses and other current assets	**208,564**	152,468
Current assets of discontinued operations, held for sale	**1,024,467**	604,829
Total current assets	**3,454,292**	2,788,436
Mortgage loans held for investment, less allowance for loan losses of $3,448	**1,358,222**	—
Property and equipment, at cost less accumulated depreciation and amortization of $647,151 and $622,693	**379,066**	343,706
Intangible assets, net	**181,413**	210,325
Goodwill	**993,919**	941,324
Other assets	**410,089**	367,920
Noncurrent assets of discontinued operations, held for sale	**722,492**	1,337,424
Total assets	**$ 7,499,493**	$ 5,989,135
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES –		
Commercial paper and other short-term borrowings	**$ 1,567,082**	$ —
Customer banking deposits	**1,129,263**	—
Accounts payable to customers, brokers and dealers	**633,189**	781,303
Accounts payable, accrued expenses and other current liabilities	**519,372**	610,029
Accrued salaries, wages and payroll taxes	**307,854**	269,151
Accrued income taxes	**394,915**	505,690
Current portion of long-term debt	**9,304**	506,992
Current liabilities of discontinued operations, held for sale	**615,373**	220,271
Total current liabilities	**5,176,352**	2,893,436
Long-term debt	**519,807**	417,262
Other noncurrent liabilities	**388,835**	530,638
Total liabilities	**6,084,994**	3,841,336
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, 2007 and 2006	**4,359**	4,359
Convertible preferred stock, no par, stated value $0.01 per share, 500,000 shares authorized	**—**	—
Additional paid-in capital	**676,766**	653,053
Accumulated other comprehensive income (loss)	**(1,320)**	21,948
Retained earnings	**2,886,440**	3,492,059
Less treasury shares, at cost	**(2,151,746)**	(2,023,620)
Total stockholders' equity	**1,414,499**	2,147,799
Total liabilities and stockholders' equity	**$ 7,499,493**	$ 5,989,135

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS –

(in 000s)

Year Ended April 30,	2007	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES –			
Net income (loss)	**$ (433,653)**	$ 490,408	$ 623,910
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	**150,215**	148,321	149,936
Provision for bad debt	**66,697**	39,594	52,159
Provision for deferred taxes	**(45,381)**	(86,652)	(60,554)
Stock-based compensation	**41,338**	47,182	36,853
Excess tax benefits from stock-based compensation	**(3,236)**	—	—
Changes in assets and liabilities of discontinued operations	**72,696**	(250,051)	(246,329)
Changes in assets and liabilities, net of acquisitions:			
Cash and cash equivalents – restricted	**52,793**	107,709	51,639
Receivables from customers, brokers, dealers and clearing organizations	**83,424**	88,954	33,892
Receivables	**(74,288)**	(128,649)	(110,992)
Prepaid expenses and other current assets	**(1,264)**	174	(14,931)
Accounts payable to customers, brokers, dealers and clearing organizations	**(148,114)**	(169,381)	(115,109)
Accounts payable, accrued expenses and other current liabilities	**(72,536)**	99,756	37,578
Accrued salaries, wages and payroll taxes	**38,704**	(8,176)	38,891
Accrued income taxes	**(275,337)**	101,093	(20,281)
Other noncurrent liabilities	**25,670**	126,288	26,527
Other, net	**(62,452)**	(12,428)	31,208
Net cash provided by (used in) operating activities	**(584,724)**	594,142	514,397
CASH FLOWS FROM INVESTING ACTIVITIES –			
Available-for-sale securities:			
Purchases of available-for-sale securities	**(54,375)**	(9,216)	(10,175)
Sales of and payments received on other available-for-sale securities	**5,983**	11,218	9,752
Mortgage loans originated/acquired and held for investment, net	**(954,281)**	—	—
Purchases of property and equipment, net	**(161,091)**	(193,277)	(148,041)
Payments made for business acquisitions, net of cash acquired	**(57,554)**	(210,142)	(23,254)
Net cash provided by (used in) investing activities of discontinued operations	**15,362**	(324,095)	95,778
Other, net	**47,580**	37,007	17,530
Net cash used in investing activities	**(1,158,376)**	(688,505)	(58,410)
CASH FLOWS FROM FINANCING ACTIVITIES –			
Repayments of commercial paper and other short-term borrowings	**(8,264,561)**	(6,423,881)	(5,191,623)
Proceeds from issuance of commercial paper and other short-term borrowings	**9,256,643**	6,423,881	5,191,623
Repayments of lines of credit borrowings	**(6,010,432)**	(625,000)	(750,000)
Proceeds from issuance of lines of credit borrowings	**6,689,432**	625,000	750,000
Repayments of Senior Notes	**(500,000)**	—	(250,000)
Proceeds from issuance of Senior Notes	**—**	—	395,221
Payments on acquisition debt	**(9,510)**	(26,819)	(25,664)
Customer banking deposits	**1,129,263**	—	—
Dividends paid	**(171,966)**	(160,031)	(142,988)
Acquisition of treasury shares	**(188,802)**	(260,312)	(530,022)
Excess tax benefits from stock-based compensation	**3,236**	—	—
Proceeds from exercise of stock options	**25,703**	98,481	129,324
Net cash provided by (used in) financing activities of discontinued operations	**52,421**	—	(15,126)
Other, net	**(20,316)**	45,645	11,340
Net cash provided by (used in) financing activities	**1,991,111**	(303,036)	(427,915)
Net increase (decrease) in cash and cash equivalents	**248,011**	(397,399)	28,072
Cash and cash equivalents at beginning of the year	**673,827**	1,071,226	1,043,154
Cash and cash equivalents at end of the year	**$ 921,838**	$ 673,827	$ 1,071,226
SUPPLEMENTARY CASH FLOW DATA–			
Income taxes paid	**$ 405,445**	$ 270,540	$ 437,427
Interest paid on borrowings	**151,436**	102,317	82,535
Interest paid on deposits	**27,475**	—	—

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY –

(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, 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 available-for-sale securities	—	—	—	—	—	(6,439)	—	—	—	(6,439)
Stock-based compensation	—	—	—	—	44,139	—	—	—	—	44,139
Shares issued for:										
Option exercises	—	—	—	—	15,892	—	—	6,959	124,263	140,155
Nonvested 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 available-for-sale securities	—	—	—	—	—	(44,129)	—	—	—	(44,129)
Stock-based compensation	—	—	—	—	57,020	—	—	—	—	57,020
Shares issued for:										
Option exercises	—	—	—	—	5,831	—	—	5,492	102,068	107,899
Nonvested 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
Net loss	—	—	—	—	—	—	**(433,653)**	—	—	**(433,653)**
Unrealized translation gain	—	—	—	—	—	**2,884**	—	—	—	**2,884**
Change in net unrealized gain on available-for-sale securities	—	—	—	—	—	**(26,152)**	—	—	—	**(26,152)**
Stock-based compensation	—	—	—	—	**50,495**	—	—	—	—	**50,495**
Shares issued for:										
Option exercises	—	—	—	—	**(7,219)**	—	—	**1,638**	**31,246**	**24,027**
Nonvested shares	—	—	—	—	**(20,619)**	—	—	**1,053**	**20,067**	**(552)**
ESPP	—	—	—	—	**1,002**	—	—	**470**	**8,967**	**9,969**
Acquisitions	—	—	—	—	**54**	—	—	**21**	**396**	**450**
Acquisition of treasury shares	—	—	—	—	—	—	—	**(8,476)**	**(188,802)**	**(188,802)**
Cash dividends paid – $0.53 per share	—	—	—	—	—	—	**(171,966)**	—	—	**(171,966)**
Balances at April 30, 2007	**435,891**	**$ 4,359**	**—**	**$ —**	**$ 676,766**	**$ (1,320)**	**$ 2,886,440**	**(112,672)**	**$ (2,151,746)**	**$ 1,414,499**

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; accounting, tax and consulting services to business clients; investment services through a registered broker-dealer; traditional consumer banking services; tax preparation and related software; and refund anticipation loans offered by a third-party lending institution. Tax preparation services are also provided in Canada and Australia. Our discontinued operations are primarily engaged in the origination, sale and servicing of non-prime and prime mortgage loans.

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.

In March 2006, the Office of Thrift Supervision (OTS) approved the charter of H&R Block Bank (HRB Bank). HRB Bank commenced operations on May 1, 2006 as a wholly-owned subsidiary, at which time we realigned certain segments of our business to reflect a new management reporting structure. The previously reported Investment Services segment and HRB Bank have been combined in the Consumer Financial Services segment.

On November 6, 2006, we announced we would evaluate strategic alternatives for Option One Mortgage Corporation (OOMC), a wholly-owned subsidiary, including a possible sale or other transaction through the public markets. On April 19, 2007, we entered into an agreement to sell OOMC. In conjunction with this plan, we also announced we would terminate the operations of H&R Block Mortgage Corporation (HRBMC), a wholly-owned subsidiary of OOMC. Additionally, during fiscal year 2007, we committed to a plan to sell and/or completed the wind-down of three smaller lines of business previously reported in our Business Services segment, as well as our tax operations in the United Kingdom previously reported in Tax Services. During fiscal year 2007, we met the criteria requiring us to present the related financial results of these businesses as discontinued operations and the assets and liabilities of all of the businesses being sold as held-for-sale in the consolidated financial statements. All periods presented have been reclassified to reflect our discontinued operations. For purposes of segment reporting, financial data for discontinued businesses is no longer reflected in the previously applicable reportable segment. See note 20 for additional information.

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.

CASH AND CASH EQUIVALENTS – Cash and cash equivalents include cash on hand, cash due from banks, securities purchased under agreements to resell and federal funds sold. For purposes of the consolidated balance sheets and consolidated statements of cash flows, all non-restricted highly liquid instruments purchased with an original maturity of three months or less are considered to be cash equivalents. Book overdrafts included in accounts payable totaled $101.1 million and $128.7 million at April 30, 2007 and 2006, 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 cash and securities purchased under agreements to resell 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.

MARKETABLE SECURITIES – TRADING – Certain marketable debt securities held by our broker-dealer are classified as trading and carried at market value based on quoted prices, with changes in market value recorded in 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.

MARKETABLE SECURITIES – AVAILABLE-FOR-SALE – Certain marketable securities we hold are classified as available-for-sale (AFS), and are reported at their fair value. Unrealized gains and losses are calculated using the specific identification method, and reported, net of applicable taxes, as a component of accumulated other comprehensive income. Realized gains and losses on the sale of these securities are determined using the specific identification method. These securities are included in other assets on the consolidated balance sheets.

We monitor our AFS investment portfolio for impairment and consider many factors in determining whether the impairment is deemed to be other-than-temporary. These factors include, but are not limited to, the length of time the security has had a market value less than the cost basis, the severity of 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.

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

Our investment in the stock of the Federal Home Loan Bank (FHLB) is carried at cost as they are restricted securities which are required to be maintained by HRB Bank for regulatory purposes and borrowing availability. The cost of the stock represents its redemption value as there is no ready market value.

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

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

We record an allowance representing our estimate of credit losses inherent in the loan portfolio at the balance sheet date. Loan recoveries and the provision for credit losses increase the allowance, while loan charge-offs decrease the allowance. A current assessment of value is made no later than 180 days past due, and any loan balance in excess of the value less costs to sell the property is charged off.

The majority of our estimated credit loss is evaluated for mortgage loans on a pooled basis. We stratify the loan portfolio based on our view of risk associated with various elements of the pool and assign estimated loss rates based on those risks. Loss rates are based on historical experience, our assessment of economic and market conditions and loss rates of comparable financial institutions. This evaluation is inherently subjective as it requires estimates susceptible to significant revisions as more information becomes available. We consider a loan to be impaired when management believes it is probable that we will be unable to collect all principal and interest due according to the contractual terms of the note. Generally, loans 90 days past due are considered impaired, at which time the individual loan will be reviewed and a reserve for loss will be recorded based on the fair value of the underlying collateral.

Real estate owned represents foreclosed assets held for sale and is initially recorded at the lower of cost or fair value less estimated disposal costs. Adjustments for estimated losses are charged to operations when any decline reduces the fair value to less than the carrying value. At April 30, 2007, real estate owned totaled $1.9 million.

Of the $1.4 billion in loans held for investment, $342.9 million of these were purchased from third-parties, with the remainder acquired by HRB Bank from OOMC and HRBMC.

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 capitalized 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, conducted as of February 1, were completed and no indications of goodwill impairment in our continuing operations were found during fiscal year 2007, 2006 or 2005. In fiscal year 2007, we recorded $154.9 million in goodwill impairments related to the sale or wind-down of our discontinued operations.

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 of continuing operations were made during the three-year period ended April 30, 2007. The weighted-average life of intangible assets with finite lives is nine years. Intangible assets are typically amortized over the estimated useful life of the assets using the straight-line method.

ASSETS OF DISCONTINUED OPERATIONS, HELD FOR SALE –

MORTGAGE LOANS HELD FOR SALE. Mortgage loans held for sale are either loans originated but not yet sold or loans repurchased from qualifying special purpose entities (Trusts) or investors and pending resale. Loans held for sale are carried at the lower of amortized cost or fair value. We determine the fair value of loans based primarily on estimated market prices considering underlying loan defects, if any. Our estimates may vary depending on the creditworthiness of the borrower and economic factors such as home price appreciation and interest rates. These loans are included in current assets held-for-sale on the consolidated balance sheets.

RESIDUAL INTERESTS IN SECURITIZATIONS. Certain residual interests in securitizations of mortgage loans are classified as trading based on management’s intentions, carried at fair value based on discounted cash flow models and changes in fair value recorded in the consolidated income statements. These securities are included in current assets held-for-sale on the consolidated balance sheets.

Residual interests classified as AFS 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. These securities are included in noncurrent assets held-for-sale on the consolidated balance sheets.

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 OOMC, (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 net interest margin (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 historical 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. We hold an interest in the Trusts equal to the difference between the fair value of the assets and the cash proceeds, adjusted for contractual advance rates, received from the Trusts. The beneficial interest is classified as a trading security, based on management's intentions, is carried at fair value with changes in fair value recorded in 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. These assets are included in noncurrent assets held-for-sale on the consolidated balance sheets.

MORTGAGE SERVICING RIGHTS. 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 vintage year, which approximates date of origination, loan type, primarily 2- and 3-year adjustable and fixed rate, and loans with and without prepayment penalties. These securities are included in noncurrent assets held-for-sale on the consolidated balance sheets.

REPURCHASE RESERVES. Our repurchase reserves relate to potential losses that could be incurred related to the repurchase of sold loans or indemnification of losses as a result of early payment defaults or breaches of other representations and warranties customary to the mortgage banking industry.

Loans are repurchased due to a combination of factors, including delinquency and other violations of representations and warranties. In whole loan sale transactions, we guarantee the first payment to the purchaser. If this payment is not collected, it is referred to as an early payment default.

For early payment default-related losses, the amount of losses we expect to incur depends primarily on the frequency of early payment defaults, the rate at which defaulted loans subsequently become current on payments ("cure rate"), the propensity of the buyer of the loans to demand recourse under the loan sale agreement and the severity of loss incurred on loans which have been repurchased. The frequency of early payment defaults, cure rates and loss severity may vary depending on the creditworthiness of the borrower and economic factors such as home price appreciation and interest rates. To the extent actual

losses related to repurchase activity are different from our estimates, the fair value of our repurchase reserve will increase or decrease. See note 20 under "Commitments and Contingencies."

REVENUE RECOGNITION. 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 repurchase reserves. Other components of gain on sales of mortgage loans include gains or losses on derivatives, loan sale repurchase reserves, impairments and direct origination and acquisition expenses.

Interest income consists primarily of interest earned on mortgage loans and accretion income. Accretion income represents interest earned over the life of residual interests using the effective interest method.

Service revenues consist of mortgage loan servicing fees and are recorded in the period in which the service is performed.

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 are designated for hedge accounting treatment as of April 30, 2007 or 2006. 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 economically hedged item.

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 will be incurred and the range of such loss can be estimated. With respect to other matters, management has concluded that a loss is only reasonably possible or remote or not estimable and, therefore, no liability is recorded. Management discloses the facts regarding material matters 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 basis. Deferred taxes are determined separately for each tax-paying component, within each tax jurisdiction, based on provisions of enacted tax law. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Our deferred tax assets include 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, and state tax returns on a consolidated or combined basis as permitted by authorities.

REVENUE RECOGNITION – Service revenues consist primarily of fees for preparation and filing of tax returns, both in offices and through our online programs, fees associated with our Peace of Mind (POM) guarantee program, 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 historical and actual payment of claims. Revenues for services rendered in connection with the Business Services segment include fees based on time and materials, which are recognized as the services are performed and amounts are earned. Broker-dealer production revenue is recognized on a trade-date basis.

Interest income consists primarily of interest earned on customer margin loan balances and mortgage loans held for investment. Interest income on customer margin loan balances is recognized daily as earned based on current rates charged to customers for their margin balance. Interest income on mortgage loans held for investment includes deferred origination fees and costs and purchase discounts and premiums, which are amortized to income over the life of the loan using the interest method.

Product and other revenues include royalties, refund anticipation loan (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. Loan participation revenue is recognized over the life of the loans. 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. Sales tax we collect and remit to taxing authorities is recorded net in our consolidated income statements.

ADVERTISING EXPENSE – Advertising costs are primarily expensed the first time the advertisement is run. Total advertising costs of continuing operations for fiscal years 2007, 2006 and 2005 totaled $215.2 million, $179.2 million and $150.6 million, respectively.

DEFINED CONTRIBUTION PLANS – We have 401(k) defined contribution plans covering all full-time employees following the completion of an eligibility period. Contributions of our continuing operations to these plans are discretionary and totaled $21.1 million, $18.3 million and $16.8 million for fiscal years 2007, 2006 and 2005, 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 AFS marketable securities. Included in stockholders' equity at April 30, 2007 and 2006, the net unrealized holding gain on AFS securities was $1.3 million and $27.4 million, respectively, and the foreign currency translation adjustment was $(2.6) million and $(5.5) million, respectively. The net unrealized holding gain on AFS securities relates primarily to AFS residual interests in securitizations.

DISCLOSURE REGARDING CERTAIN FINANCIAL INSTRUMENTS – The carrying values reported in the balance sheet for cash equivalents, receivables, demand deposits, 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 fair value of mortgage loans held for investment, note 9 for the fair value of time deposits and note 10 for fair value of long-term debt.

NEW ACCOUNTING STANDARDS – In February 2007, Statement of Financial Accounting Standards No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities — Including an Amendment of FASB Statement No. 115," (SFAS 159), was issued. This standard allows a company to irrevocably elect fair value as the initial and subsequent measurement attribute for certain financial assets and financial liabilities on a contract-by-contract basis, with changes in fair value recognized in earnings. The provisions of this standard are effective as of the beginning of our fiscal year 2009, with early adoption permitted. We are currently evaluating what effect the adoption of SFAS 159 will have on our consolidated financial statements.

In September 2006, Statement of Financial Accounting Standards No. 157, "Fair Value Instruments," (SFAS 157), was issued. The provisions of this standard include guidelines about the extent to which companies measure assets and liabilities at fair value, the effect of fair value measurements on earnings, and establishes a fair value hierarchy that prioritizes the information used in developing assumptions used when valuing an asset or liability. The provisions of this standard are effective as of the beginning of our fiscal year 2009. We are currently evaluating what effect the adoption of SFAS 157 will have on our consolidated financial statements.

In September 2006, Staff Accounting Bulleting No. 108, "Financial Statements – Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" (SAB 108), was issued. SAB 108 provides guidance on how prior year misstatements should be quantified when determining if current year financial statements are materially misstated. These provisions are effective for the current fiscal year. The adoption of SAB 108 did not impact our consolidated financial statements.

In September 2006, Emerging Issues Task Force Issue No. 06-4, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements" (EITF 06-4) was issued. EITF 06-4 requires the recognition of a liability for an agreement with an employee to provide future postretirement benefits, as this obligation is not effectively settled upon entering into an insurance arrangement. The provisions of this standard are effective as of the beginning of our fiscal year 2009. We are currently evaluating what effect the adoption of EITF 06-4 will have on our consolidated financial statements.

In June 2006, FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN 48), was issued. The

interpretation requires that a tax position meet a "more-likely-than-not" recognition threshold for the benefit of the uncertain tax position to be recognized in the financial statements and provides guidance on the measurement of the benefit. The interpretation also requires interim period estimated tax benefits of uncertain tax positions to be accounted for in the period of change rather than as a component of the annual effective tax rate. The provisions of this standard are effective as of the beginning of our fiscal year 2008. The adoption of FIN 48 will not have a material impact on our consolidated financial statements.

In June 2006, Emerging Issues Task Force Issue No. 06-3, "How Sales Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross Versus Net Presentation)" (EITF 06-3) was issued. EITF 06-3 requires disclosure of the presentation of taxes on either a gross (included in revenues and costs) or a net (excluded from revenues) basis as an accounting policy decision. The provisions of this standard are effective for interim and annual reporting periods beginning after December 15, 2006. The adoption of EITF 06-3 did not have a material impact 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 allows servicers to choose to subsequently 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. The adoption of SFAS 156 will not have a material impact on our consolidated financial statements. We will adopt SFAS 156 on May 1, 2007. Upon adoption we identified MSRs relating to all existing residential mortgage loans as a class of servicing rights and elected to continue to use the "amortization method" for these MSRs. Presently, this class represents all of our MSRs.

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. Our residual interests typically have interests in derivative instruments embedded within the securitization trusts. Upon adoption, we will elect to account for our residual interests on a fair value basis, with changes in fair value recorded in earnings in the period in which the change occurs. Prior to adoption, we accounted for our residual interests as AFS securities with unrealized gains recorded in other comprehensive income.

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. We adopted SFAS 123R on May 1, 2006 and it did not have a material impact on our consolidated financial statements. See note 13 for additional information on our stock-based compensation arrangements. 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
Net income	$ 490,408	$ 623,910
Add: Stock-based compensation expense included in reported net income, net of taxes	37,254	28,819
Deduct: Total stock-based compensation expense determined under fair value method for all awards, net of taxes	(47,428)	(39,544)
Pro forma net income	$ 480,234	$ 613,185
Basic earnings per share:		
As presented	$ 1.49	$ 1.88
Pro forma	1.46	1.85
Diluted earnings per share:		
As presented	$ 1.47	$ 1.85
Pro forma	1.44	1.82

The estimated impact of new accounting standards not yet adopted reflects current views. There may be material differences between these estimates and the actual impact of these standards.

NOTE 2: BUSINESS COMBINATIONS

Acquisitions during fiscal years 2007, 2006 and 2005 are as follows. Results for each acquisition are included since the date of acquisition.

(dollars in 000s)

	Asset Acquired	Weighted Average Life	Asset Value at Acquisition
FISCAL YEAR 2007 –			
TaxWorks LLC and affiliated entities	Property and equipment		**$ 368**
	Goodwill		**29,428**
	Customer relationships	7 years	**7,800**
	Unpatented technology	7 years	**12,500**
	Trade name	10 years	**1,000**
	Noncompete agreements	5 years	**600**
	Present value of fixed acquisition payments		**(26,921)**
	Weighted average life	7 years	**$ 24,775**
Other	Goodwill		**$ 17,579**
	Customer relationships	10 years	**8,636**
	Noncompete agreements	5 years	**2,696**
	Other assets		**3,868**
	Weighted average life	9 years	**$ 32,779**
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

During fiscal year 2007 we acquired TaxWorks LLC, a provider of commercial tax preparation software targeting the independent tax preparer market. The initial cash purchase price was $24.8 million, including the present value of a payment of $10.0 million due in May 2007 and a payment of $23.6 million due in May 2012. The $10.0 million payment due in May 2007 was paid on April 30, 2007. An additional payment of up to $8.0 million, contingent on meeting certain performance targets, could be paid in April 2012 and would typically be recorded as additional purchase price, generally goodwill. Goodwill recognized in this transaction is included in the Tax Services segment and is deductible for tax purposes.

During fiscal year 2006, we acquired all outstanding common stock of American Express Tax and Business Services, Inc. (AmexTBS) for an aggregate purchase price of $190.7 million. The customer relationships and noncompete agreements are amortized on a straight-line basis and have a weighted average life of 11 years and six years, respectively. Goodwill recognized in this transaction is included in the

Business Services segment and is not deductible for tax purposes. The purchase price was subject to certain contractual post-closing adjustments, which were finalized during fiscal year 2007. As a result, we adjusted deferred tax balances initially recorded in connection with this acquisition resulting in an increase of $16.6 million to goodwill and received cash of $10.1 million, which was recorded as a reduction of goodwill.

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 years 2007, 2006 and 2005, we made other acquisitions which were accounted for as purchases with cash payments totaling $32.8 million, $19.7 million and $14.4 million, respectively. Their operations, which are not material, are included in the consolidated income statements since the date of acquisition. During fiscal years 2007, 2006 and 2005, we also paid $5.4 million, $2.1 million and $3.4 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 from continuing operations are as follows:

Diluted earnings per share excludes the impact of nonvested common shares or the exercise of options to purchase 16.8 million, 8.7 million, and 1.2 million shares of stock for 2007, 2006 and 2005, respectively.

(in 000s, except per share amounts)

Year Ended April 30,	**2007**	2006	2005
Net income from continuing operations	**$ 374,337**	$ 297,541	$ 319,749
Basic weighted average common shares	**322,688**	328,118	331,612
Dilutive potential shares from stock options and nonvested stock	**3,464**	5,067	6,011
Convertible preferred stock	**2**	2	2
Dilutive weighted average common shares	**326,154**	333,187	337,625
Earnings per share from continuing operations:			
Basic	**$ 1.16**	$ 0.91	$ 0.96
Diluted	**1.15**	0.89	0.95

NOTE 4: MARKETABLE SECURITIES AVAILABLE-FOR-SALE

The amortized cost and fair value of securities classified as available-for-sale held in our continuing operations at April 30, 2007 and 2006 are summarized below:

(in 000s)

	2007				2006			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses (1)	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses (1)	Fair Value
Mortgage-backed securities	**$ 35,122**	**$ 83**	**$ (121)**	**$ 35,084**	$ —	$ —	$ —	$ —
Municipal bonds	**9,527**	**47**	**(6)**	**9,568**	8,556	5	(53)	8,508
Common stock	**3,845**	**747**	**(45)**	**4,547**	3,998	382	(100)	4,280
Trust preferred securities	**3,500**	**—**	**—**	**3,500**	—	—	—	—
	$ 51,994	**$ 877**	**$ (172)**	**$ 52,699**	$ 12,554	$ 387	$ (153)	$ 12,788

(1) At April 30, 2007, investments in common stock with a cost of $101,000 and gross unrealized losses of $11,000 had been in continuous loss position for more than twelve months. At April 30, 2006, gross unrealized losses were in a continuous loss position for less than twelve months.

Proceeds from the sales of AFS securities of continuing operations were $3.5 million, $11.2 million and $9.8 million during fiscal years 2007, 2006 and 2005, respectively. Gross realized gains on those sales during fiscal years 2007, 2006 and 2005 were $0.3 million, $0.7 million and $0.5 million, respectively; gross realized losses were $0.1 million, $0.2 million and $0.3 million, respectively.

Contractual maturities of AFS debt securities at April 30, 2007 occur at varying dates over the next three to eight 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.

HRB Bank is required to maintain a restricted investment in FHLB stock for regulatory purposes and borrowing availability. The cost of this investment, $9.1 million, represents its redemption value, as these investments do not have a ready market.

NOTE 5: MORTGAGE LOANS HELD FOR INVESTMENT

The characteristics of our mortgage loan portfolio as of April 30, 2007 are as follows:

(dollars in 000s)

	Amount	% of Total
Adjustable-rate loans	**$ 1,039,376**	**77%**
Fixed-rate loans	**311,516**	**23%**
	1,350,892	**100%**
Unamortized deferred fees, costs and purchase premiums	**10,778**	
Less allowance for loan losses	**(3,448)**	
	$ 1,358,222	

The estimated fair value of mortgage loans held for investment at April 30, 2007 was $1.4 billion. The estimated fair value was calculated by discounting scheduled cash flows through the estimated maturity using estimated market discount rates that reflect the interest rate risk inherent in the loans, reduced by an allocation of the allowance for loan losses.

As of April 30, 2007, accrued interest receivable on mortgage loans held for investment totaled $9.0 million. At April 30, 2007, HRB Bank had interest-only mortgage loans in its investment portfolio totaling $8.2 million. HRB Bank had no commitments to purchase mortgage loans from third-party lenders at April 30, 2007.

Activity in the allowance for loan losses for the year ended April 30, 2007 is as follows:

(in 000s)

Balance, beginning of period	**$ —**
Provision for loan losses	**3,622**
Charge-offs	**(174)**
Recoveries	**—**
	$ 3,448

Impaired loans at April 30, 2007 totaled $28.3 million. The portion of our total allowance for loan losses allocated to impaired loans totaled $0.2 million at April 30, 2007.

As of April 30, 2007, loans considered more than 90 days past due and non-accrual totaled $22.9 million. We had no loans more than 90 days past due still accruing interest.

NOTE 6: PROPERTY AND EQUIPMENT

The components of property and equipment of our continuing operations are as follows:

(in 000s)

April 30,	**2007**	2006
Land and other non-depreciable assets	**$ 9,592**	$ 17,152
Buildings	**170,904**	50,232
Computers and other equipment	**530,713**	499,004
Capitalized software	**137,011**	124,065
Leasehold improvements	**168,370**	159,872
Construction in process	**9,627**	116,074
	1,026,217	966,399
Less: Accumulated depreciation and amortization	**647,151**	622,693
	$ 379,066	$ 343,706

Depreciation and amortization expense of continuing operations for fiscal years 2007, 2006 and 2005 was $93.7 million, $85.8 million and $89.2 million, respectively. Included in depreciation and amortization expense of continuing operations is amortization of capitalized software of $16.9 million, $11.9 million and $10.8 million, respectively.

As of April 30, 2007 and 2006, we have property and equipment under capital lease with a cost of $39.2 million and $22.1 million, respectively, and accumulated depreciation of $8.9 million and $4.9 million, respectively. During fiscal year 2006, 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 18. Assets under this capital lease at April 30, 2007 totaled $22.3 million. We also have a separate agreement to lease real estate and buildings under a noncancelable capital lease for the next 14 years with an option to purchase after two years. Total assets under this capital lease at April 30, 2007 totaled $16.8 million.

During fiscal years 2007 and 2006, we capitalized interest costs of $3.6 million and $4.7 million, respectively, relating to the construction of our new corporate headquarters.

NOTE 7: GOODWILL AND INTANGIBLE ASSETS

Changes in the carrying amount of goodwill of continuing operations by segment for the year ended April 30, 2007, are as follows:

(in 000s)

	2006	Additions	Other	**2007**
Tax Services	$ 376,515	$ 38,156	$ 406	**$ 415,077**
Business Services	390,855	14,218	(185)	**404,888**
Consumer Financial Services	173,954	**—**	**—**	**173,954**
	$ 941,324	$ 52,374	$ 221	**$ 993,919**

Goodwill and other indefinite life intangible assets were tested for impairment in the fourth quarter of fiscal year 2007. No impairment existed at any of our reporting units in continuing operations during fiscal year 2007, 2006 or 2005. In fiscal year 2007, we recorded $154.9 million in goodwill impairments related to the sale or wind-down of our discontinued operations.

The purchase price for our acquisition of AmexTBS was subject to certain contractual post-closing adjustments, which were finalized during fiscal year 2007. As a result, we adjusted deferred tax balances initially recorded in connection with this acquisition resulting in an increase of $16.6 million to goodwill, and received cash of $10.1 million, which was recorded as a reduction of goodwill. All amounts relating to AmexTBS were recorded in our Business Services segment

The components of intangible assets of continuing operations are as follows:

(in 000s)

April 30,	**2007**			2006		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Tax Services:						
Customer relationships	**$ 39,347**	**$ (14,654)**	**$ 24,693**	$ 27,257	$ (10,842)	$ 16,415
Noncompete agreements	**21,237**	**(18,279)**	**2,958**	18,879	(17,686)	1,193
Unpatented technology	**12,500**	**—**	**12,500**	—	—	—
Trade name	**1,025**	**—**	**1,025**	—	—	—
Business Services:						
Customer relationships	**142,315**	**(90,900)**	**51,415**	144,093	(80,174)	63,919
Noncompete agreements	**31,352**	**(15,524)**	**15,828**	31,960	(14,148)	17,812
Trade name — amortizing	**3,290**	**(2,430)**	**860**	4,050	(1,823)	2,227
Trade name — non-amortizing	**55,637**	**(4,868)**	**50,769**	55,637	(4,868)	50,769
Consumer Financial Services:						
Customer relationships	**293,000**	**(271,635)**	**21,365**	293,000	(235,010)	57,990
	$ 599,703	**$ (418,290)**	**$ 181,413**	$ 574,876	$ (364,551)	$ 210,325

Amortization of intangible assets of continuing operations for the years ended April 30, 2007, 2006 and 2005 was $56.6 million, $62.5 million and $60.8 million, respectively. Estimated amortization of intangible assets for fiscal years 2008, 2009, 2010, 2011 and 2012 is $40.0 million, $16.7 million, $14.1 million, $12.6 million and $9.8 million, respectively.

NOTE 8: COMMERCIAL PAPER AND OTHER SHORT-TERM BORROWINGS

Short-term borrowings are used to finance temporary liquidity needs and various financial activities. The components of short-term borrowings as of April 30, 2007 are as follows:

(dollars in 000s)

	Outstanding Balance	Weighted-Average Interest Rate
Commercial paper, due May 31, 2007	**$ 992,082**	**5.47%**
Credit facility, due December 20, 2007	**500,000**	**5.67%**
FHLB advances, due May 7, 2007	**75,000**	**5.31%**
	$ 1,567,082	

At April 30, 2007, we maintained $2.0 billion in back-up credit facilities to support the commercial paper program and for general corporate purposes. These unsecured committed lines of credit (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 (1) a minimum net worth covenant and limits on our indebtedness and (2) a requirement that we reduce the aggregate outstanding principal amount of short-term debt, as defined in the agreement, to $200.0 million or less for a minimum period of thirty consecutive days during the period from March 1 to June 30 of each year (the “Cleandown Requirement”). We obtained a waiver of the Cleandown Requirement for 2007. There was no balance outstanding on these lines at April 30, 2007.

We entered into a $3.0 billion line of credit agreement with HSBC Finance Corporation effective January 2, 2007 through the earlier of June 30, 2007 or the date of repayment, for use as a funding source for the purchase of RAL participations. This line was subject to various covenants that were similar to our primary unsecured CLOCs, and was secured by our RAL participations. All borrowings on this facility were repaid as of April 30, 2007 and the facility is now closed.

We entered into a $300.0 million committed line of credit agreement with BNP Paribas for the period January 2 through February 23, 2007 to cover our peak liquidity needs. This line was subject to various covenants that were similar to those of our primary unsecured CLOCs. This facility expired in February 2007.

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. There was no balance outstanding on this facility at April 30, 2007.

In April 2007, we obtained a $500.0 million credit facility to provide funding for the $500.0 million of 8½% Senior Notes which were due April 16, 2007. This facility matures on December 20, 2007. The facility was fully drawn at closing and is subject to various covenants that are similar to our primary CLOCs.

NOTE 9: CUSTOMER BANKING DEPOSITS

The components of customer banking deposits at April 30, 2007 are as follows:

(in 000s)

	Outstanding Balance	Interest Expense
Demand deposits:		
Money-market deposits	**$ 793,383**	**$ 27,724**
Savings deposits	**15,428**	**121**
Checking deposits:		
Interest-bearing	**149,419**	**3,722**
Noninterest-bearing	**93,560**	**—**
	242,979	**3,722**
IRAs and other time deposits:		
Due in 2008	**619**	
Due in 2009	**511**	
Due in 2010	**102**	
Due in 2011	**50**	
Due in 2012	**229**	
Thereafter	**75,962**	
	77,473	**561**
	$ 1,129,263	**$ 32,128**

Accrued but unpaid interest on deposits totaled $1.8 million at April 30, 2007.

Time deposit accounts in amounts of $100,000 or more with a remaining maturity of more than one year, totaled $0.1 million at April 30, 2007.

The fair value of IRAs and other time deposits was $75.0 million at April 30, 2007. The fair value of other time deposits is calculated based on the discounted value of contractual cash flows.

NOTE 10: LONG-TERM DEBT

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

April 30,	2007	(in 000s) 2006
Senior Notes, 5.125%, due October 2014	**$ 398,236**	$ 398,001
FHLB borrowings, 4.99%, due April 2009	**104,000**	—
Business Services acquisition obligations, due from May 2007 to October 2010	**13,645**	13,162
Capital lease obligations	**12,911**	13,209
Senior Notes, 8½%, due April 2007	**—**	499,425
Other obligations	**319**	457
	529,111	924,254
Less: Current portion	**9,304**	506,992
	$ 519,807	$ 417,262

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. In fiscal year 2007 these notes became due and were replaced with a $500.0 million credit facility. See discussion of short-term borrowings in note 8.

As of April 30, 2007, we had $850.0 million remaining under our shelf registration for additional debt issuances.

HRB Bank is a member of the FHLB of Des Moines, which extends credit to member banks based on eligible collateral, which consists primarily of mortgage loans held for investment and certain AFS securities. On April 13, 2007, we borrowed $104.0 million from the FHLB for liquidity purposes. This borrowing requires monthly interest payments at a rate of 4.99% and matures April 13, 2009. At April 30, 2007, HRB Bank had FHLB advance capacity of $525.5 million based on eligible pledged collateral of $1.5 billion, and there was a balance of $179.0 million outstanding on this facility. Of the outstanding borrowings, $75.0 million was considered short-term. See discussion of short-term borrowings in note 8.

We have obligations related to various Business Services acquisitions of $13.6 million and $13.2 million at April 30, 2007 and 2006, respectively, which are due from May 2007 to October 2010.

We have a capitalized lease obligation of $12.9 million at April 30, 2007 that is collateralized by land and buildings. The obligation is due in 14 years.

The aggregate payments required to retire long-term debt are $9.3 million, $106.1 million, $3.1 million, $1.3 million, $0.6 million and $408.7 million in 2008, 2009, 2010, 2011, 2012 and beyond, respectively.

Based upon borrowing rates currently available for indebtedness with similar terms, the fair value of long-term debt was approximately $505.8 million at April 30, 2007.

NOTE 11: 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 $186.3 million and $153.2 million at April 30, 2007 and 2006, respectively, reflecting our obligation 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 $139.6 million and $127.4 million at April 30, 2007 and 2006, 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, 2007 and 2006 is $12.9 million and $14.3 million, respectively, related to this liability.

NOTE 12: STOCKHOLDERS' EQUITY

We are authorized to issue 6.0 million shares of Preferred Stock, without par value. At April 30, 2007, 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. At April 30, 2007, we had 0.5 million shares of authorized but unissued Convertible Preferred Stock. The holders of the Convertible Preferred Stock are not entitled to receive dividends

paid in cash, property or securities and, in the event of any dissolution, liquidation or wind-up of the Company, will share ratably with the holders of Common Stock then outstanding in the assets of the Company after any distribution or payments are made to the holders of Participating Preferred Stock or the holders of any other class or series of stock of the Company with preference over the Common Stock.

NOTE 13: STOCK-BASED COMPENSATION

Beginning May 1, 2006, we adopted SFAS 123R under the modified prospective approach. Under SFAS 123R, we continue to measure and recognize the fair value of stock-based compensation consistent with our past practice under Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," which we adopted on May 1, 2003 under the prospective transition method. The adoption of SFAS 123R did not have a material impact on our consolidated financial statements.

Stock-based compensation expense of $50.5 million, $57.0 million, and $44.1 million was recorded in fiscal years 2007, 2006 and 2005, respectively. The related tax benefits of $17.9 million, $19.8 million and $15.3 million are included in our results for fiscal years 2007, 2006 and 2005, respectively. Stock-based compensation expense of our continuing operations totaled $41.3 million, $47.2 million, and $36.9 million in fiscal years 2007, 2006 and 2005, respectively.

SFAS 123R requires excess tax benefits from stock-based compensation to be included as a financing activity in the statements of cash flows. As a result, we classified $3.2 million as a cash inflow from financing activities rather than as an operating activity for fiscal year 2007.

We have four stock-based compensation plans which have been approved by our shareholders. As of April 30, 2007, we had 25.8 million shares reserved for future awards under these plans. We issue shares from our treasury stock to satisfy the exercise or release of stock-based awards. We believe we have adequate treasury stock to issue for the exercise or release of stock-based awards.

Our 2003 Long-Term Executive Compensation Plan provides for awards of options (both incentive and nonqualified), nonvested shares, performance nonvested share units and other stock-based awards to employees. These awards entitle the holder to shares or the right to purchase shares of common stock as the award vests, typically over a three-year period with one-third vesting each year. Nonvested shares receive dividends during the vesting period and performance nonvested share units receive cumulative dividends at the end of the vesting period. We measure the fair value of options on the grant date or modification date using the Black-Scholes option valuation model. We measure the fair value of nonvested shares and performance nonvested share units based on the closing price of our common stock on the grant date. Generally, we expense the grant-date fair value, net of estimated forfeitures, over the vesting period on a straight-line basis. Upon adoption of SFAS 123R, awards granted to employees who are of retirement age, or reach retirement age at least one year after the grant date but prior to the end of the service period of the award, are expensed over the shorter of the two periods. Options are granted at a price equal to the fair market value of our common stock on the grant date and have a contractual term of ten years.

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

Our 1989 Stock Option Plan for Outside Directors provides for awards of nonqualified options to outside directors. These awards entitle the holder to the right to purchase shares of common stock. We measure the fair value of options on the grant date using the Black-Scholes option valuation model. These awards vest immediately upon issuance and are therefore fully expensed on the grant date. Options are granted at a price equal to the fair market value of our common stock on the grant date and have a contractual term of ten years.

Our 2000 Employee Stock Purchase Plan (ESPP) provides employees the option to purchase shares of our Common Stock through payroll deductions. The purchase price of the stock is 90% of the lower of either the fair market value of our Common Stock on the first trading day within the Option Period or on the last trading day of the Option Period. The Option Periods are six-month periods beginning on January 1 and July 1 each year. We measure the fair value of options on the grant date utilizing the Black-Scholes option valuation model in accordance with FASB Technical Bulletin 97-1, "Accounting

under Statement 123 for Certain Employee Stock Purchase Plans with a Look-Back Option." The fair value of the option includes the value of the 10% discount and the look-back feature. We expense the grant-date fair value over the six-month vesting period.

A summary of options for the year ended April 30, 2007 is as follows:

(in 000s, except per share amounts)

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding, beginning of year	**26,048**	**$ 21.40**		
Granted	**5,040**	**23.84**		
Exercised	**(1,638)**	**15.86**		
Forfeited or expired	**(4,325)**	**23.83**		
Outstanding, end of year	**25,125**	**$ 21.83**	**4 years**	**$ 70,667**
Exercisable, end of year	**18,443**	**$ 20.75**	**4 years**	**$ 70,605**
Exercisable and expected to vest	**23,405**	**$ 21.61**	**4 years**	**$ 70,647**

The total intrinsic value of options exercised during fiscal years 2007, 2006 and 2005 was $11.8 million, $43.2 million and $39.1 million, respectively. As of April 30, 2007, we had $15.2 million of total unrecognized compensation cost related to these options. The cost is expected to be recognized over a weighted-average period of one year.

We utilize the Black-Scholes option pricing model to value our options on the grant date. We estimate the expected volatility using our historical stock price data. We also use historical exercise and forfeiture behaviors to estimate the options expected term and our forfeiture rate. The dividend yield is calculated based on the current dividend and the market price of our common stock on the grant date. The risk-free interest rate is based on the U.S. Treasury zero-coupon yield curve in effect on the grant date. Both expected volatility and the risk-free interest rate are based on a period that approximates the expected term.

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

Year Ended April 30,	**2007**	2006	2005
Options — management and director:			
Expected volatility	**21.70% - 29.06%**	26.40% - 27.81%	30.12% - 32.41%
Expected term	**4 -7 years**	5 years	5 years
Dividend yield	**2.15% - 2.62%**	1.71% - 2.25%	1.74% - 1.90%
Risk-free interest rate	**4.33% - 5.10%**	3.65% - 4.75%	3.33% - 4.07%
Weighted average fair value	**$ 5.15**	$ 7.37	$ 6.90
Options — seasonal:			
Expected volatility	**20.05%**	23.28%	27.65%
Expected term	**2 years**	2 years	2 years
Dividend yield	**2.26%**	1.71%	1.85%
Risk-free interest rate	**5.11%**	3.61%	2.60%
Weighted average fair value	**$ 3.17**	$ 4.16	$ 3.71
ESPP options:			
Expected volatility	**19.55% - 26.30%**	24.52% - 25.42%	19.62% - 23.22%
Expected term	**0.5 years**	0.5 years	0.5 years
Dividend yield	**2.26% - 2.33%**	1.71% - 2.04%	1.81% - 1.84%
Risk-free interest rate	**5.08% - 5.24%**	3.37% - 4.36%	1.64% - 2.59%
Weighted average fair value	**$ 3.90**	$ 4.55	$ 3.84

A summary of nonvested shares and performance nonvested share units for the year ended April 30, 2007 is as follows:

	Shares	(shares in 000s) Weighted-Average Grant Date Fair Value
Outstanding, beginning of year	**2,455**	**$ 25.54**
Granted	**1,218**	**23.40**
Released	**(1,052)**	**24.93**
Forfeited	**(369)**	**24.90**
Outstanding, end of year	**2,252**	**24.91**

The total fair value of shares vesting during fiscal years 2007, 2006 and 2005 was $24.9 million, $17.5 million and $8.2 million, respectively. Upon the grant of nonvested shares and performance nonvested share units, unearned compensation cost is recorded as an offset to additional paid in capital and is amortized as compensation expense over the vesting period. As of April 30, 2007, we had $40.3 million of total unrecognized compensation cost related to these shares. This cost is expected to be recognized over a weighted-average period of two years.

NOTE 14: 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 15: INCOME TAXES

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

			(in 000s)
Year Ended April 30,	**2007**	2006	2005
Domestic	**$ 609,501**	$ 491,758	$ 521,969
Foreign	**26,297**	18,724	5,644
	$ 635,798	$ 510,482	$ 527,613

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

			(in 000s)
Year Ended April 30,	**2007**	2006	2005
Current:			
Federal	**$ 259,735**	$ 246,156	$ 234,645
State	**39,090**	45,720	33,526
Foreign	**7,388**	6,367	469
	306,213	298,243	268,640
Deferred:			
Federal	**(44,107)**	(72,414)	(57,674)
State	**(3,181)**	(12,161)	(2,193)
Foreign	**2,536**	(727)	(909)
	(44,752)	(85,302)	(60,776)
Total provision for income taxes before discontinued operations	**261,461**	212,941	207,864
Income tax included in discontinued operations	**(425,018)**	124,044	185,941
Income tax allocated directly to goodwill	**(4,624)**	—	—
Income tax included in comprehensive income	**(16,225)**	(27,261)	(3,991)
Income tax included in stockholders' equity for compensation expense for tax purposes that differs from amounts for financial reporting purposes	**2,506**	(9,529)	(10,918)
Total income taxes	**$ (181,900)**	$ 300,195	$ 378,896

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

Year Ended April 30,	**2007**	2006	2005
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%**	4.3%	3.9%
Other	**2.4%**	2.4%	0.5%
Effective tax rate	**41.1%**	41.7%	39.4%

Deferred income taxes 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 components of deferred taxes of continuing operations are as follows:

		(in 000s)
April 30,	**2007**	2006
Gross deferred tax assets:		
Accrued expenses	**$ 79,696**	$ 57,902
Allowance for credit losses and related reserves	**48,096**	24,186
Current	**127,792**	82,088
Deferred and stock-based compensation	**80,991**	86,582
Property and equipment	**46,267**	44,715
Deferred revenue	**54,542**	57,836
Net operating losses	**24,476**	16,395
Noncurrent	**206,276**	205,528
	334,068	287,616
Valuation allowance	**(37,302)**	(25,740)
	296,766	261,876
Gross deferred tax liabilities:		
Prepaid expenses and revenue deferred for tax	**(10,571)**	(14,636)
Current	**(10,571)**	(14,636)
Intangible assets	**(78,189)**	(65,066)
Noncurrent	**(78,189)**	(65,066)
Net deferred tax assets	**$ 208,006**	$ 182,174

The net change in the total valuation allowance for fiscal years 2007 and 2006 was $11.6 million and $5.5 million, respectively. The valuation allowance for deferred tax assets as of April 30, 2007 was $37.3 million.

We believe the net deferred tax asset at April 30, 2007 of $208.0 million is, more likely than not, realizable. We have federal taxable income in excess of approximately $1.6 billion in the aggregate for tax years 2005 and 2006, and substantial state taxable income in the carry-back period.

As of April 30, 2007, we had net operating loss (NOLs) carryforwards for tax purposes in various states and foreign countries of approximately $582.6 million. We recorded deferred tax assets of $24.5 million related to these NOLs and a related valuation allowance of $21.2 million. If not used, these carryforwards will expire in varying amounts during fiscal years 2008 through 2026.

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.

The loss from discontinued operations for fiscal year 2007 of $808.0 million is net of tax benefits of $425.0 million, and includes income tax benefits related to OOMC totaling $374.6 million. Income taxes for discontinued operations also included one-time benefits of $16.2 million related to permanent deductions for the tax basis of investments in two subsidiaries that were abandoned during the year. Assets of discontinued operations held for sale includes deferred tax assets of $393.6 million, net of the related valuation allowance, and deferred tax liabilities of $94.0 million as of April 30, 2007. In addition, we recorded a valuation allowance of $55.8 million, which primarily relates to deferred tax assets for capital losses and basis differences in certain state jurisdictions. Deferred tax assets of $183.2 million relate to certain residual assets. Although the tax position associated with these deferred tax assets is more likely than not of being sustained, there is a level of uncertainty associated with the amount of benefit. We believe the net deferred tax asset at April 30, 2007 is, more likely than not, realizable.

NOTE 16: INTEREST INCOME AND OPERATING INTEREST EXPENSE

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

(in 000s)

Year Ended April 30,	2007	2006	2005
Interest income:			
Loans, net	**$ 53,396**	$ —	$ —
Investment securities	**44,489**	27,771	17,674
Margin receivables	**34,226**	39,038	30,166
Other	**2,910**	2,694	1,494
	$ 135,021	$ 69,503	$ 49,334
Operating interest expense:			
Borrowings	**$ 53,820**	$ 27,309	$ 19,944
Deposits	**32,128**	—	—
	$ 85,948	$ 27,309	$ 19,944
Net interest income	**$ 49,073**	$ 42,194	$ 29,390

NOTE 17: REGULATORY REQUIREMENTS

REGISTERED BROKER-DEALER - H&R Block Financial Advisors, Inc. (HRBFA) is subject to regulatory requirements intended to ensure the general financial soundness and liquidity of broker-dealers. At April 30, 2007, HRBFA's net capital of $122.0 million, which was 27.8% of aggregate debit items, exceeded its minimum required net capital of $8.8 million by $113.2 million.

Pledged securities at April 30, 2007 totaled $47.0 million, an excess of $11.5 million over the margin requirement. Pledged securities at April 30, 2006 totaled $53.0 million, an excess of $9.9 million over the margin requirement.

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

Quantitative measures established by regulation to ensure capital adequacy require HRB Bank to maintain minimum

amounts and ratios of tangible equity, total risk-based capital and Tier 1 capital, as set forth in the table below. In addition to these minimum ratio requirements, HRB Bank is required to continually maintain a 12.0% minimum leverage ratio as a condition of its charter-approval order through fiscal year 2009. This condition was extended through fiscal year 2012 as a result of a Supervisory Directive issued on May 29, 2007. See further discussion of the Supervisory Directive below. As of April 30, 2007, our fiscal year end, HRB Bank's leverage ratio was 11.6%. We have discussed this with the OTS and the OTS has indicated that we are not in violation of our minimum leverage ratio, as the requirement is as of calendar quarterly TFR filings. We will monitor regulatory compliance with this ratio monthly and discuss with the OTS in the event the minimum is not maintained.

As of March 31, 2007, our most recent TFR filing with the OTS, HRB Bank was a "well capitalized" institution under the prompt corrective action provisions of the Federal Deposit Insurance Corporation (FDIC). The five capital categories are: (1) "well capitalized" (total risk-based capital ratio of 10%, Tier 1 Risk-based capital ratio of 6% and leverage ratio of 5%); (2) "adequately capitalized"; (3) "undercapitalized"; (4) "significantly undercapitalized"; and (5) "critically undercapitalized." There are no conditions or events since March 31, 2007 that management believes have changed HRB Bank's category.

The following table sets forth HRB Bank's regulatory capital requirements at March 31, 2007, as calculated in the most recently filed TFR:

(dollars in 000s)

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total risk-based capital ratio (1)	**$ 177,337**	**26.3%**	**$ 53,884**	**8.0%**	**$ 67,355**	**10.0%**
Tier 1 risk-based capital ratio (2)	**$ 173,000**	**25.7%**	**n/a**	**n/a**	**$ 40,413**	**6.0%**
Tier 1 capital ratio (leverage) (3)	**$ 173,000**	**13.0%**	**$ 53,332**	**12.0%**	**$ 66,665**	**5.0%**
Tangible equity ratio (4)	**$ 173,000**	**13.0%**	**$ 20,000**	**1.5%**	**n/a**	**n/a**

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

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

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

(4) Tangible capital divided by tangible assets.

In conjunction with H&R Block, Inc.'s application with the OTS for HRB Bank, we made commitments as part of our charter approval order (Master Commitment) which included, but were not limited to: (1) a three percent minimum ratio of adjusted tangible capital to adjusted total assets, as defined by the OTS; (2) maintain all HRB Bank capital within HRB Bank in accordance with the submitted three-year business plan; and (3) follow federal regulations surrounding intercompany transactions and approvals. We fell below the three percent minimum ratio at April 30, 2007. Normal seasonal operating losses are also expected to cause us to be in non-compliance until the end of fiscal year 2008. We notified the OTS of our failure to meet this requirement, and of our expectations for fiscal year 2008. We submitted a preliminary revised capital plan to the OTS that provides for us to regain compliance with the three percent minimum capital requirement by April 30, 2008. The preliminary revised capital plan contemplates that we will meet the minimum capital requirement primarily through earnings generated by our normal business operations in fiscal year 2008. On May 29, 2007, the OTS issued a Supervisory Directive, in which the OTS granted approval of our preliminary revised capital plan. Included in the Supervisory Directive were additional conditions that we will be required to meet in addition to the Master Commitment. The significant additional conditions included in the Supervisory Directive are as follows: (1) requires HRB Bank to extend its compliance with a minimum 12.0% leverage ratio through fiscal year 2012; (2) requires H&R Block, Inc. to comply with the Master Commitment at all times, except as provided herein, and at no time may we have capital lower than projected in the preliminary revised capital plan for the period May 2007 through April 2009; (3) institutes reporting requirements to the OTS quarterly and monthly by the Board of Directors and management, respectively; and (4) requires HRB Bank's Board of Directors to have an independent chairperson and at least the same number of outside directors as inside directors.

We plan to submit our formal plan with approval from our Board of Directors to the OTS by July 31, 2007. The OTS is aware that the primary difference between our preliminary revised capital plan and the final plan to be submitted is the beginning capital levels as of April 30, 2007, as our fiscal year results were not final at the time the preliminary revised capital plan was submitted to the OTS, and they have indicated that the final plan submitted must meet the three percent requirement by April 30, 2008 to be approved. Failure to meet the conditions under our charter-approval order and the Supervisory Directive could result in the OTS taking further regulatory actions, such as a supervisory agreement, cease-and-desist orders and civil monetary penalties. At this time, the financial impact, if any, of additional regulatory actions cannot be determined. If we are not in a position to cure deficiencies, a

resulting failure could impair our ability to repurchase shares of our common stock, acquire businesses and pay dividends.

Achievement of the capital plan depends on future events and circumstances, the outcome of which cannot be assured. Nevertheless, at this time we believe that we will meet all of the OTS provisions agreed to by July 31, 2007.

NOTE 18: COMMITMENTS, CONTINGENCIES AND RISKS

COMMITMENTS AND CONTINGENCIES - 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 historical and actual payment of claims. The related current asset is included in prepaid expenses and other current assets. The related liability is included in accounts payable, accrued expenses and other 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, 2007 and 2006 are as follows:

		(in 000s)
April 30,	**2007**	2006
Balance, beginning of year	**$ 141,684**	$ 130,762
Amounts deferred for new guarantees issued	**80,736**	78,900
Revenue recognized on previous deferrals	**(80,247)**	(67,978)
Balance, end of year	**$ 142,173**	$ 141,684

On November 1, 2006 we entered into an agreement to purchase $57.2 million in media advertising between November 1, 2006 and June 30, 2009. During the current year, we purchased $19.4 million in advertising for our retail tax business, leaving a remaining commitment of $37.7 million at April 30, 2007. We expect to make payments totaling $20.6 million and $17.2 million during fiscal years 2008 and 2009, respectively.

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 $19.9 million as of April 30, 2007. 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. 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, 2007, we had pledged securities totaling $47.0 million, which satisfied margin deposit requirements of $35.6 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.

HRBFA has two secured lines of credit with an unaffiliated financial institution with a total credit limit of $51.0 million. There were no borrowings on these lines of credit during fiscal years 2007 or 2006 and no outstanding balance at April 30, 2007 or 2006.

We have contractual commitments to fund certain franchises requesting Franchise Equity Lines of Credit (FELCs). The commitment to fund FELCs as of April 30, 2007 totaled $79.6 million, with a related receivable balance of $47.3 million included in the consolidated balance sheets. The receivable represents the amount drawn on the FELCs as of April 30, 2007

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, 2007 there were no balances outstanding on these letters of credit.

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 $31.0 million in industrial revenue bonds due in December 2015, and leased the furniture, fixtures and equipment to us for an identical term under a capital lease. The City's bonds were purchased by us. Because the City has assigned the lease to the bond trustee for our benefit as the sole bondholder, we, in effect, control enforcement of the lease against ourselves. As a result of the capital lease treatment, the furniture, fixtures and equipment will remain a component of property, plant and equipment in our consolidated balance 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. As of April 30, 2007, we have purchased $31.0 million in bonds.

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 of our continuing operations at April 30, 2007 are as follows:

	(in 000s)
2008	**$ 256,555**
2009	**213,838**
2010	**163,646**
2011	**99,420**
2012	**58,985**
2013 and beyond	**77,781**
	$ 870,225

Rent expense of our continuing operations for fiscal years 2007, 2006 and 2005 totaled $318.2 million, $301.8 million and $244.2 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, 2007.

NOTE 19: LITIGATION AND RELATED CONTINGENCIES

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

The amounts claimed in the RAL Cases have been very substantial in some instances. 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").

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. 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 constitutes one of the 2006 Settlements. On April 19, 2006, we entered into a settlement agreement regarding this case, subject to final court approval. The settlement was approved by the court on August 28, 2006. One objector filed an appeal, which was dismissed on March 1, 2007. Unless a Petition for Certiorari is filed by the objector and granted by the United States Supreme Court, the settlement is final.

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. On September 26, 2006, the Pennsylvania Supreme Court reversed the appellate court's reversal of the trial court's decision to decertify the class. The plaintiff is seeking further review by the appellate 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. CGC-06-449461, in the California Superior Court, San Francisco County, 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). This case is in the discovery stage.

PEACE OF MIND LITIGATION – *Lorie J. Marshall, et al. v. H&R Block Tax Services, Inc., et al.*, Civil Action 2003L000004, 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 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 actions 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 (Index No. 06/401110) entitled *The People of New York v. H&R Block, Inc. and H&R Block Financial Advisors, Inc.* The complaint alleged fraudulent business practices, deceptive acts and practices, common law fraud and breach of fiduciary duty with respect to the Express IRA product and sought equitable relief, disgorgement of profits, damages and restitution, civil

penalties and punitive damages. On December 1, 2006, the Supreme Court of the State of New York issued a ruling that dismissed the New York Attorney General's lawsuit in its entirety on procedural grounds but granted leave to amend and refile the lawsuit. The amended complaint has been filed and alleges causes of action similar to those claimed in the original complaint and seeks equitable relief, disgorgement of profits, damages and restitution, civil penalties and punitive damages. We intend to defend this case vigorously, but there are no assurances as to its outcome.

In addition to the New York Attorney General action, a number of civil actions were filed against us concerning the Express IRA matter, the first of which was filed on March 17, 2006. Except for two cases pending in state court, all of the civil actions have been consolidated by the panel for Multi-District Litigation into a single action styled *In re H&R Block, Inc. Express IRA Marketing Litigation* in the United States District Court for the Western District of Missouri. We intend to defend these cases vigorously, but there are no assurances as to their outcome.

SECURITIES LITIGATION – On March 17, 2006, the first of three putative class actions alleging violations of certain securities laws were filed against the Company and certain of its current and former officers and directors (the "Securities Class Action Cases"). In addition, on April 5, 2006, the first of nine shareholder derivative actions purportedly brought on behalf of the Company (which is named as a "nominal defendant") were filed against certain of the Company's current and former directors and officers (the "Derivative Cases"). On September 20, 2006, the United States District Court for the Western District of Missouri ordered all of the Securities Class Action Cases and the Derivative Cases consolidated into a single action styled *In re H&R Block Securities Litigation*. The court appointed a lead plaintiff who filed a consolidated complaint on April 6, 2007 against the Company and certain of its officers. The complaint alleges, among other things, deceptive, material and misleading financial statements, failure to prepare financial statements in accordance with generally accepted accounting principles and concealment of the potential for lawsuits stemming from the allegedly fraudulent nature of the Company's operations. The complaint seeks unspecified damages and equitable relief. We intend to defend this litigation vigorously, but there are no assurances as to its outcome.

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, was recessed until October 2006 and is scheduled to continue through August 2007. 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 McGladrey (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 and resolution of this matter.

RSM EquiCo, Inc., a subsidiary of RSM, is a party to a putative class action filed on July 11, 2006 and entitled *Do Right's Plant Growers v. RSM EquiCo, Inc., RSM McGladrey, Inc., H&R Block, Inc. and Does 1-100, inclusive*, Case No. 06 CC00137, in the California Superior Court, Orange County. The complaint contains allegations regarding business valuation services provided by RSM EquiCo, Inc., including fraud, negligent misrepresentation, breach of contract, breach of implied covenant of good faith and fair dealing, breach of fiduciary duty and unfair competition and seeks unspecified damages, restitution and equitable relief. There can be no assurance regarding the outcome and resolution of this matter.

We have from time to time been party to investigations, claims and lawsuits not discussed herein arising out of our business operations. These investigations, claims and lawsuits include actions by state attorneys general, other state regulators, individual plaintiffs, and cases in which plaintiffs seek to represent a class of 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 investigations, claims and lawsuits pertain to RALs, the origination and servicing of mortgage loans, the electronic filing of customers' income tax returns, the POM guarantee program, and our Express IRA program and other investment products and RSM EquiCo, Inc. business valuation services. 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 the event of an unfavorable outcome, the amounts we may

be required to pay in the discharge of liabilities or settlements could have a material adverse effect on our consolidated financial statements.

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.

NOTE 20: DISCONTINUED OPERATIONS

FINANCIAL STATEMENT PRESENTATION – On November 6, 2006 we announced we would evaluate strategic alternatives for OOMC, including a possible sale or other transaction through the public markets. On April 19, 2007, we entered into an agreement to sell OOMC for cash consideration approximately equal to the estimated fair value of adjusted tangible net assets, as defined in the agreement, at closing less $300 million. The OOMC agreement is subject to various closing conditions and may be terminated by either party if the transaction does not close by December 31, 2007. In conjunction with this plan, we also announced we would terminate the operations of HRBMC. OOMC and HRBMC were previously reported in our Mortgage Services segment.

During fiscal year 2007, we committed to a plan to sell and/or completed the wind-down of three smaller lines of business previously reported in our Business Services segment, as well as our tax operations in the United Kingdom previously reported in Tax Services. As of April 30, 2007, we met the criteria requiring us to present the related financial results of these businesses as discontinued operations and the assets and liabilities of all of the businesses being sold as held-for-sale and the in the consolidated financial statements for all periods presented.

We have recorded impairments relating to the disposition of our mortgage businesses during the fourth quarter equal to $345.8 million, including the full impairment of associated goodwill equal to $152.5 million. In addition, we recorded impairments relating to other discontinued businesses totaling $5.0 million. Overhead costs previously allocated to these businesses, totaled $13.4 million, $10.8 million and $10.2 million for the fiscal years 2007, 2006 and 2005, respectively, and are included in continuing operations.

The major classes of assets and liabilities included as held for sale in our consolidated balance sheets are as follows:

(in 000s)

April 30,	2007	2006
Cash and cash equivalents	**$ 108,773**	$ 29,161
Residual interests in securitizations – trading	**72,691**	—
Mortgage loans held for sale	**222,810**	236,399
Prepaid expenses and other current assets, net	**620,193**	339,269
Current assets held for sale	**$ 1,024,467**	$ 604,829
Beneficial interest in Trusts	**$ 41,057**	$ 188,014
Residual interests in securitizations — AFS	**90,283**	159,058
Mortgage servicing rights	**253,067**	272,472
Mortgage loans held for investment	**—**	407,538
Goodwill, net	**—**	159,128
Other assets	**338,085**	151,214
Noncurrent assets held for sale	**$ 722,492**	$ 1,337,424
Accounts payable, accrued expenses and deposits	**$ 370,226**	$ 158,476
Other liabilities	**245,147**	61,795
Current liabilities directly associated with with assets held for sale	**$ 615,373**	$ 220,271

Assets held for sale include deferred tax assets of $393.6, net of the related valuation allowance, and deferred tax liabilities of $94.0 million as of April 30, 2007. Deferred taxes represent the tax consequences attributable to differences between the financial statement carrying amount of assets and liabilities expected to be transferred and their respective tax bases. These differences will become currently deductible or taxable to us upon closing of the transaction.

The financial results included in discontinued operations are as follows:

Year Ended April 30,	2007	2006	2005
			(in 000s)
Revenue:			
Gains on sales of mortgage assets, net	**$ (459,635)**	$ 713,710	$ 822,075
Interest income	**55,024**	133,703	149,581
Loan servicing revenue	**433,438**	398,992	273,056
Other	**45,747**	51,643	28,938
	$ 74,574	$ 1,298,048	$ 1,273,650
Income (loss) from operations before income tax (benefit)	**$ (882,130)**	$ 316,911	$ 490,102
Impairment of assets	**(350,878)**	—	—
Pretax income (loss)	**(1,233,008)**	316,911	490,102
Income tax (benefit)	**(425,018)**	124,044	185,941
Net income (loss) from discontinued operations	**$ (807,990)**	$ 192,867	$ 304,161

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 qualifying special purpose entities (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 eight warehouse facilities. As a result of the loan sales to the Trusts, we remove the mortgage loans from our balance sheet and record the gain or loss on the sale, cash proceeds, MSRs, repurchase 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 $41.1 million and $188.0 million at April 30, 2007 and 2006, 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 of the beneficial interest holders to complete a loan sale or a securitization is dependent on market conditions. If the Trusts execute loan sales, we receive cash for our beneficial interest in Trusts. In a securitization transaction, the Trusts transfer the loans to one of our consolidated bankruptcy remote 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 $72.7 million in trading residual interests as of April 30, 2007 and none as of April 30, 2006.

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

April 30,	2007	2006
		(in 000s)
Balance, beginning of year	**$ —**	$ —
Additions (resulting from securitization of mortgage loans)	**487,773**	353,882
Cash received	**(14,845)**	(12,858)
Accretion	**3,391**	5,950
Change of fair value	**23,091**	9,837
Residuals securitized in NIM transactions	**(426,719)**	(356,811)
Balance, end of year	**$ 72,691**	$ —

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 AFS securities.

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

April 30,	2007	2006
		(in 000s)
Balance, beginning of year	**$ 159,058**	$ 205,936
Additions (resulting from NIM transactions)	**127,580**	61,651
Cash received	**(13,631)**	(80,539)
Cash proceeds from sales and securitizations of residual interests	**(25,207)**	(62,396)
Accretion	**48,552**	108,396
Impairments of fair value	**(168,878)**	(34,107)
Other	**(1,672)**	(1,583)
Change in unrealized holding gains arising during the period	**(35,519)**	(38,300)
Balance, end of year	**$ 90,283**	$ 159,058

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

We sold $27.5 billion and $40.3 billion of mortgage loans in loan sales to the Trusts and other buyers during the years ended April 30, 2007 and 2006, respectively. Gains totaling $102.0 million and $648.7 million were recorded on these sales, respectively.

Trading residual interests initially valued at $426.7 million and $356.8 million were securitized in NIM transactions during the years ended April 30, 2007 and 2006, respectively. Net cash proceeds of $299.1 million and $295.2 million were received from the NIM transactions for the years ended April 30, 2007 and 2006, respectively. Total net additions to AFS residual interests for the years ended April 30, 2007 and 2006 were $127.6 million and $61.7 million, respectively.

Cash flows from AFS residual interests of $13.6 million and $80.5 million were received from the securitization trusts for the years ended April 30, 2007 and 2006, respectively. An additional $25.2 million and $62.4 million was received during fiscal years 2007 and 2006, respectively, as a result of the sale of previously securitized residuals, as discussed below. Cash received on AFS residual interests is included in investing activities of discontinued operations on the consolidated statements of cash flows.

During fiscal year 2007, we completed sales of previously securitized residual interests and recorded gains of $7.0 million. We received cash proceeds of $25.2 million from the transactions and retained a $4.3 million AFS residual interest. 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 AFS residual interest. These sales accelerate cash flows from the residual interests, effectively realizing previously recorded unrealized gains included in other comprehensive income.

The following transactions were treated as non-cash investing activities in the consolidated statement of cash flows:

Year Ended April 30,	2007	2006
		(in 000s)
Residual interests mark-to-market	**$ 13,832**	$ 35,274
Additions to AFS residual interests	**127,580**	61,651

Residual interests from NIM securitizations are classified as AFS 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 AFS residual interests, which had not yet been accreted into income, totaled $1.3 million and $44.1 million at April 30, 2007 and 2006, 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 of discontinued operations as of April 30, 2007 and 2006, is $378.6 million and $255.2 million, respectively, in default advances, escrow advances and principal and interest advances related to the servicing of non-prime loans.

Activity related to MSRs consists of the following:

April 30,	2007	2006
		(in 000s)
Balance, beginning of year	**$ 272,472**	$ 166,614
Additions	**172,263**	250,537
Amortization	**(190,274)**	(144,359)
Impairments of fair value	**(1,394)**	(320)
Balance, end of year	**$ 253,067**	$ 272,472

Estimated amortization of MSRs for fiscal years 2008, 2009, 2010, 2011 and 2012 is $135.2 million, $67.7 million, $30.6 million, $12.1 million and $4.2 million, respectively. The fair value of MSRs at April 30, 2007 was $397.5 million.

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

	2007	2006	2005
Estimated credit losses	**5.09%**	2.55%	2.72%
Discount rate	**24.79%**	25.00%	25.00%
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,	2007	2006
Estimated credit losses – residual interests	**5.04%**	3.07%
Discount rate – residual interests	**24.82%**	21.98%
Discount rate – MSRs	**20.00%**	18.00%
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	**27%**	**70%**	**28%**
Without prepayment penalties	**36%**	**51%**	**24%**
Fixed rate mortgage loans:			
With prepayment penalties	**25%**	**40%**	**22%**

For fixed rate mortgages without prepayment penalties, we use an average prepayment rate of 20% 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					
	2007	2006	2005	2004	2003	Prior
As of:						
April 30, 2007	**6.41%**	**6.79%**	**5.48%**	**3.45%**	**2.57%**	**5.11%**
April 30, 2006	—	3.05%	2.48%	2.18%	2.13%	4.22%
April 30, 2005	—	—	2.83%	2.30%	2.08%	4.01%
April 30, 2004	—	—	—	3.92%	4.35%	4.35%

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, 2007, 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.

(dollars in 000s)

	Residential Mortgage Loans			
	Residuals	AFS Beneficial interest in Trusts	Trading Residuals	MSRs
Carrying amount/fair value of residuals	**$ 90,283**	**$ 41,057**	**$ 72,691**	**$ 253,067**
Weighted average life (in years)	**5.7**	**2.4**	**4.1**	**1.4**
$ impact on fair value:				
Prepayments (including defaults):				
Adverse 10%	**$ (3,067)**	**$ 263**	**$ (3,517)**	**$ (22,410)**
Adverse 20%	**(1,186)**	**545**	**(3,735)**	**(42,796)**
Credit losses:				
Adverse 10%	**$ (17,313)**	**$ (920)**	**$ (6,898)**	**N/A**
Adverse 20%	**(34,201)**	**(1,737)**	**(12,608)**	**N/A**
Discount rate:				
Adverse 10%	**$ (7,189)**	**$ (744)**	**$ (2,238)**	**$ (7,570)**
Adverse 20%	**(13,543)**	**(1,461)**	**(4,296)**	**(14,783)**
Variable interest rates:				
Adverse 10%	**$ 481**	**$ (8,481)**	**$ 653**	**N/A**
Adverse 20%	**1,210**	**(16,890)**	**1,174**	**N/A**

Increases in prepayment rates related to AFS 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 AFS residual interest.

Mortgage loans that have been securitized and those held for sale at April 30, 2007 and 2006, past due sixty days or more and the related credit losses incurred are presented below:

(in 000s)

	Total Principal Amount of Loans Outstanding April 30,		Principal Amount of Loans 60 Days or More Past Due April 30,		Credit Losses (net of recoveries) Year Ended April 30,	
	2007	2006	**2007**	2006	**2007**	2006
Securitized mortgage loans	**$18,434,940**	$10,046,032	**$1,383,832**	$1,012,414	**$147,069**	$115,976
Mortgage loans in warehouse Trusts	**1,456,078**	7,845,834	**—**	—	**—**	—
Mortgage loans held for sale	**295,208**	255,224	**202,941**	98,906	**335,088**	69,984
Total loans	**$20,186,226**	$18,147,090	**$1,586,773**	$1,111,320	**$482,157**	$185,960

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,		
	2007	2006	**2007**	2006	2005
Interest rate swaps	**$ 10,774**	$ 8,831	**$ (6,990)**	$137,192	$ 47,192
Put options on Eurodollar futures	**1,212**	3,282	**(2,768)**	1,071	—
Forward loans sale commitments	**—**	1,961	**—**	1,961	—
Interest rate caps	**—**	—	**—**	802	(106)
Rate-lock equivalents	**(987)**	(317)	**(2,631)**	(1,118)	2,187
Prime short sales	**75**	777	**1,347**	1,315	(2,420)
	$ 11,074	$ 14,534	**$ (11,042)**	$141,223	$ 46,853

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. The average notional amount of swap arrangements during fiscal years 2007 and 2006 was $5.7 billion and $8.4 billion, respectively.

We enter into forward loan sale commitments to manage market risk associated with commitments to fund mortgage loans. We had no forward commitments outstanding at April 30, 2007. 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, 2007, we had commitments to fund both non-prime and prime mortgage loans totaling $2.4 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, 2007 and 2006.

COMMITMENTS AND CONTINGENCIES – The following table summarizes certain of our contractual obligations and commitments related to our discontinued operations:

(in 000s)

April 30,	**2007**	2006
Commitment to fund mortgage loans	**$2,374,938**	$4,032,045
Commitment to sell mortgage loans	**—**	3,052,688

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. External market forces impact the probability of commitments being exercised, and therefore, total commitments outstanding do not necessarily represent future cash requirements.

During the fourth quarter of fiscal year 2007, we executed a whole loan trade with a third party who securitized the acquired loans. In conjunction with this sale, we entered into an agreement, whereby the purchaser had the right to sell the resulting residual interest to us at a predetermined price. At April 30, 2007, we recorded a liability of $38.4 million for this obligation on our consolidated balance sheets, which is included in current liabilities held for sale. In May 2007 the purchaser exercised that right and we now hold the residual interest from that securitization.

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. Repurchased loans are normally sold in subsequent sale transactions. The following table summarizes our loan repurchase activity:

		(dollars in 000s)
April 30,	**2007**	2006
Loans repurchased during the period (1)	**$ 989,992**	$ 297,606
Repurchase reserves added during period	**388,733**	73,562
Repurchase reserves added as a percent of originations	**1.44%**	0.18%

(1) The fiscal year 2007 amount includes $11.2 million in loans repurchased from HRB Bank.

A liability has been established related to the potential loss on repurchase of loans previously sold of $38.4 million and $33.4 million at April 30, 2007 and 2006, respectively. On an ongoing basis, we monitor the adequacy of our repurchase liability, which is established upon the initial sale of the loans, and is included in current liabilities held for sale in the consolidated balance sheets. During the year ended April 30, 2007, we experienced higher early payment defaults, resulting in an increase in actual and expected loan repurchase activity. As a result, we increased our reserves accordingly. In establishing our reserves, we've assumed all loans that are currently delinquent and subject to contractual repurchase terms will be repurchased, and that approximately 5% of loans previously sold but not yet subject to contractual repurchase terms will be repurchased. Based on historical experience, we assumed an average 26% loss severity on all loans repurchased and expected to be repurchased as of April 30, 2007.

We are responsible for servicing mortgage loans for others of $63.9 billion and subservicing loans of $3.1 billion at April 30, 2007.

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, 2007 and 2006, $744.0 million and $358.2 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.

OOMC has guaranteed 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 obligation can be called upon in the event adequate proceeds are 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, 2007 and 2006 was $1.5 billion and $7.8 billion, respectively. The fair value of mortgage loans held by the Trusts as of April 30, 2007 and 2006 was $1.5 billion and $7.9 billion, respectively. At April 30, 2007 and 2006 we recorded liabilities of $0.03 million and $1.7 million, respectively, which are included in current liabilities held for sale in the consolidated balance sheets. Under the warehouse agreements, we may be required to provide funds in the event of declining loan values, but only to the extent of the 10% guaranteed amount. Funds provided as a result of declining loan values at April 30, 2007 and 2006 totaled $78.3 million and $19.7 million, respectively. Of the amount provided as of April 30, 2007, $44.0 million relates to our off-balance sheet warehouse facilities and is included in the beneficial interest in Trusts while the remaining $34.3 million relates to our on-balance sheet facility. At April 30, 2006, all the funds provided were included in the beneficial interest in Trusts.

WAREHOUSE FACILITIES. Substantially all non-prime mortgage loans we originate are sold daily to the Trusts. Loans totaling $1.5 billion and $7.8 billion were held by the Trusts as of April 30, 2007 and 2006, respectively, and were not recorded on our consolidated balance sheets. The Trusts purchase the loans from us using committed warehouse facilities, arranged

by us, and totaling $9.3 billion in the aggregate. These facilities are subject to various OOMC performance triggers, limits and financial covenants, including tangible net worth, income and leverage ratios and may be subject to margin calls. We hold an interest in the Trusts equal to the difference between the fair value of the assets and cash proceeds, adjusted for contractual advance rates, received from the Trusts. In addition to the margin call feature, loans sold to the Trust are subject to repurchase if certain criteria are not met, including loan default provisions. Unfavorable fluctuations in loan value are guaranteed up to 10% of the original fair value. Additional uncommitted facilities of $2.0 billion bring total capacity to $11.3 billion at April 30, 2007.

As of April 30, 2007, OOMC did not meet the "minimum net income" financial covenant contained in certain of its committed warehouse facilities. This covenant requires OOMC to maintain a cumulative minimum net income of at least $1 for the four consecutive fiscal quarters ended April 30, 2007. On April 27, 2007, OOMC obtained waivers of the minimum net income financial covenants from all of the warehouse facility providers. These waivers extend through various dates as discussed below. Two waivers are subject to OOMC having a specified amount of total warehouse capacity. If we do not obtain extensions of facilities and waivers that expire before July 31, 2007 or expand existing capacity, we would be in violation of this warehouse capacity requirement.

OOMC will not meet this financial covenant at July 31, 2007. We have, however, obtained waivers from a sufficient number of warehouse providers to allow OOMC to continue to fund loans using its off-balance sheet financing facilities. At our current origination levels, we estimate we would only need waivers for between $3.0 billion and $4.0 billion of available capacity at any given time. However, the sale of OOMC is subject to various closing conditions, including that OOMC maintain at least $8.0 billion of total capacity in its warehouse facilities throughout the period to the closing date (of which at least $2.0 billion is to be in the form of unused capacity at the closing date).

If OOMC cannot obtain extensions and waivers, warehouse facility providers would have the right to terminate their future funding obligations under the applicable warehouse facilities, terminate OOMC's right to service the loans remaining in the applicable warehouse or request funding of the 10% guarantee. This termination could adversely impact OOMC's ability to fund new loans and our ability to complete the OOMC sales transaction.

Waivers of the minimum net income financial covenant obtained by OOMC on April 27, 2007 expire as follows:

(in 000s)

Expiration Date	Amount
July 30, 2007	$2,250,000
July 31, 2007	1,500,000
October 2, 2007	1,000,000
October 31, 2007	2,002,000
January 15, 2008	500,000
April 25, 2008	2,000,000

During fiscal year 2007, we amended our warehouse facility with Citigroup Global Markets Realty Corp (Citigroup) to split OOMC's existing warehouse financing arrangement with Citigroup into two separate warehouse facilities, one of which is an on-balance sheet facility with capacity of $500.0 million and the other an off-balance sheet facility. Loans totaling $52.7 million were held on the on-balance sheet line at April 30, 2007, with the related loans and liability reported in assets and liabilities held for sale.

RESTRUCTURING CHARGE – During fiscal year 2006, we initiated a restructuring plan to reduce costs within our mortgage operations. Charges incurred during fiscal year 2007 related to our ongoing restructuring plans totaled $21.5 million and are included in "other adjustments" in the table below. Changes in our restructuring charge liability during the year ended April 30, 2007 are as follows:

(in 000s)

	Accrual Balance as of April 30, 2006	Cash Payments	Other Adjustments	Accrual Balance as of April 30, 2007
Employee severance costs	$ 1,737	$ (8,817)	$ 10,768	**$ 3,688**
Contract termination costs	5,821	(2,874)	7,972	**10,919**
	$ 7,558	$ (11,691)	$ 18,740	**$ 14,607**

The remaining liability related to this restructuring charge is included in liabilities held for sale on our consolidated balance sheet and primarily relates to lease obligations for vacant space resulting from branch office closings and employee severance costs.

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.

We incurred additional restructuring charges subsequent to April 30, 2007 and expect these restructuring activities to continue until the sale of OOMC is complete.

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 2007 approximately 78% of our non-prime loan originations were adjustable rate mortgages, 12% of non-prime loan originations, including both adjustable rate mortgages and fixed rate mortgages, were interest-only mortgage loans, and 33% 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 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 repurchase 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 our mortgage operations include external events impacting the asset-backed securities market and loan sale 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 21: SEGMENT INFORMATION

HRB Bank commenced operations on May 1, 2006 as a wholly-owned subsidiary, at which time we realigned certain segments of our business to reflect a new management reporting structure. The previously reported Investment Services segment and HRB Bank have been combined in the Consumer Financial Services segment.

During fiscal year 2007, we met the criteria requiring us to present the related financial results of OOMC, HRBMC and other businesses as discontinued operations and the assets and liabilities of all of the businesses being sold as held-for-sale in the consolidated financial statements. All periods presented have been reclassified to reflect our discontinued operations. See additional discussion in note 20.

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 reportable segments:

TAX SERVICES – This segment is primarily engaged in providing tax return preparation and related services and products in the U.S., Canada and Australia. During fiscal year 2007, our operations in the United Kingdom were closed. 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 RAL participations. 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 various websites. Revenues of this segment are seasonal in nature.

Our international operations contributed $131.8 million, $120.3 million and $102.2 million in revenues for fiscal years 2007, 2006 and 2005, respectively, and $20.1 million, $17.7 million and $10.8 million of pretax income, respectively.

BUSINESS SERVICES – This segment offers middle-market companies accounting, tax and business consulting services, wealth management, and capital markets services in offices located throughout the U.S. Revenues of this segment are seasonal in nature.

CONSUMER FINANCIAL SERVICES – The Consumer Financial Services segment is primarily engaged in offering brokerage services, along with investment planning and related financial advice through HRBFA and full-service banking through HRB Bank. HRB Bank offers traditional banking services, including checking and

savings accounts, home equity lines of credit, individual retirement accounts, certificates of deposit and prepaid debit card accounts. HRB Bank also purchases loans from OOMC, HRBMC and other lenders to hold for investment purposes.

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. The pretax losses shown below result primarily from interest expense and overhead costs previously allocated to our discontinued operations. 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, which consist primarily of cash, marketable securities and equipment, or assets of discontinued operations.

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

(in 000s)

Year Ended April 30,	2007	2006	2005
REVENUES –			
Tax Services	**$ 2,685,858**	$ 2,449,751	$ 2,356,708
Business Services	**932,361**	828,133	547,185
Consumer Financial Services	**388,090**	287,955	239,244
Corporate	**14,965**	8,914	3,232
	$ 4,021,274	$ 3,574,753	$ 3,146,369
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE TAXES –			
Tax Services	**$ 705,171**	$ 590,089	$ 665,291
Business Services	**57,661**	70,661	43,207
Consumer Financial Services	**19,811**	(32,835)	(75,370)
Corporate	**(146,845)**	(117,433)	(105,515)
	$ 635,798	$ 510,482	$ 527,613
DEPRECIATION AND AMORTIZATION –			
Tax Services	**$ 68,369**	$ 69,074	$ 79,005
Business Services	**35,046**	32,143	20,241
Consumer Financial Services	**45,308**	46,081	48,662
Corporate	**1,492**	1,023	2,028
	$ 150,215	$ 148,321	$ 149,936

(in 000s)

Year Ended April 30,	2007	2006	2005
CAPITAL EXPENDITURES –			
Tax Services	**$ 41,809**	$ 43,607	$ 74,297
Business Services	**31,770**	23,731	17,778
Consumer Financial Services	**2,743**	11,088	9,503
Corporate	**84,769**	114,851	46,463
	$ 161,091	$ 193,277	$ 148,041
IDENTIFIABLE ASSETS –			
Tax Services	**$ 961,415**	$ 843,717	$ 716,981
Business Services	**941,754**	947,601	669,424
Consumer Financial Services	**2,619,946**	1,306,822	1,481,127
Corporate	**1,229,419**	948,742	1,320,054
Assets of discontinued operations	**1,746,959**	1,942,253	1,350,470
	$ 7,499,493	$ 5,989,135	$ 5,538,056

NOTE 22: QUARTERLY FINANCIAL DATA (UNAUDITED)

During fiscal year 2007, we met the criteria requiring us to present the related financial results of OOMC, HRBMC and other smaller businesses as discontinued operations and the assets and liabilities of all of the businesses being sold as held-for-sale in the consolidated financial statements. All periods presented have been reclassified to reflect our discontinued operations. See additional discussion in note 20.

(in 000s, except per share amounts)

Fiscal Year 2007 Quarter Ended	**Fiscal Year 2007**	**April 30, 2007**	**January 31, 2007**	**October 31, 2006**	**July 31, 2006**
Revenues	**$ 4,021,274**	**$ 2,351,242**	**$ 931,179**	**$ 396,083**	**$ 342,770**
Income (loss) from continuing operations before tax (benefit)	**635,798**	**1,006,266**	**22,125**	**(198,619)**	**(193,974)**
Income tax (benefit)	**261,461**	**415,037**	**181**	**(77,622)**	**(76,135)**
Net income (loss) from continuing operations	**374,337**	**591,229**	**21,944**	**(120,997)**	**(117,839)**
Net loss of discontinued operations (1)	**(807,990)**	**(676,793)**	**(82,196)**	**(35,463)**	**(13,538)**
Net loss	**$ (433,653)**	**$ (85,564)**	**$ (60,252)**	**$ (156,460)**	**$ (131,377)**
Basic earnings (loss) per share:					
Net income (loss) of continuing operations	**$ 1.16**	**$ 1.83**	**$ 0.07**	**$ (0.38)**	**$ (0.36)**
Net loss of discontinued operations	**(2.50)**	**(2.09)**	**(0.26)**	**(0.11)**	**(0.05)**
Net loss	**$ (1.34)**	**$ (0.26)**	**$ (0.19)**	**$ (0.49)**	**$ (0.41)**
Diluted earnings (loss) per share					
Net income (loss) of continuing operations	**$ 1.15**	**$ 1.81**	**$ 0.07**	**$ (0.38)**	**$ (0.36)**
Net loss of discontinued operations	**(2.48)**	**(2.07)**	**(0.25)**	**(0.11)**	**(0.05)**
Net loss	**$ (1.33)**	**$ (0.26)**	**$ (0.18)**	**$ (0.49)**	**$ (0.41)**

(1) The net loss of discontinued operations for the fourth quarter of fiscal year 2007 includes pretax charges relating to impairment of goodwill and assets held for sale of $350.8 million, impairments of residual interests of $95.8 million and provisions for loan repurchase obligations of $137.7 million.

Fiscal Year 2006 Quarter Ended	Fiscal Year 2006	April 30, 2006	January 31, 2006	October 31, 2005	July 31, 2005
Revenues	$ 3,574,753	$ 2,178,120	$ 842,996	$ 309,345	$ 244,292
Income (loss) from continuing operations before tax (benefit)	510,482	909,409	(42,064)	(178,456)	(178,407)
Income tax (benefit)	212,941	367,673	(13,716)	(70,518)	(70,498)
Net income (loss) from continuing operations	297,541	541,736	(28,348)	(107,938)	(107,909)
Net income of discontinued operations	192,867	45,802	40,461	26,689	79,915
Net income (loss)	$ 490,408	$ 587,538	$ 12,113	$ (81,249)	$ (27,994)
Basic earnings (loss) per share:					
Net income (loss) of continuing operations	$ 0.91	$ 1.65	$ (0.09)	$ (0.33)	$ (0.33)
Net income of discontinued operations	0.58	0.14	0.13	0.08	0.25
Net income (loss)	$ 1.49	$ 1.79	$ 0.04	$ (0.25)	$ (0.08)
Diluted earnings (loss) per share					
Net income (loss) of continuing operations	$ 0.89	$ 1.63	$ (0.09)	$ (0.33)	$ (0.33)
Net income of discontinued operations	0.58	0.14	0.13	0.08	0.25
Net income (loss)	$ 1.47	$ 1.77	$ 0.04	$ (0.25)	$ (0.08)

The accumulation of four quarters in fiscal years 2007 and 2006 for earnings per share may not equal the related per share amounts for the years ended April 30, 2007 and 2006 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 2007 –					
Dividends per share	**$ 0.14**	**$ 0.14**	**$ 0.14**	**$ 0.13**	**$ 0.53**
Stock price range:					
High	**$ 24.05**	**$ 24.86**	**$ 22.94**	**$ 24.30**	**$ 24.86**
Low	**18.31**	**21.47**	**20.20**	**21.25**	**18.31**
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

NOTE 23: 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 credit facility entered into in April 2007, $400.0 million 5.125% Senior Notes issued on October 26, 2004 and $500.0 million 8½% Senior Notes that matured in April 2007. 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, 2007	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Eliminations	Consolidated H&R Block
Revenues	**$ —**	**$ 974,664**	**$ 3,060,409**	**$ (13,799)**	**$ 4,021,274**
Expenses:					
Cost of service revenues	**—**	**214,223**	**2,113,532**	**(1,559)**	**2,326,196**
Cost of other revenues	**—**	**157,017**	**25,245**	**—**	**182,262**
Selling, general and administrative	**—**	**306,095**	**554,132**	**(7,273)**	**852,954**
	—	**677,335**	**2,692,909**	**(8,832)**	**3,361,412**
Operating income	**—**	**297,329**	**367,500**	**(4,967)**	**659,862**
Interest expense	**—**	**(45,153)**	**(1,767)**	**—**	**(46,920)**
Other income, net	**635,798**	**19,999**	**2,857**	**(635,798)**	**22,856**
Income from continuing operations before taxes	**635,798**	**272,175**	**368,590**	**(640,765)**	**635,798**
Income taxes	**261,461**	**109,589**	**153,915**	**(263,504)**	**261,461**
Net income from continuing operations	**374,337**	**162,586**	**214,675**	**(377,261)**	**374,337**
Net loss from discontinued operations	**(807,990)**	**(790,862)**	**(20,362)**	**811,224**	**(807,990)**
Net income (loss)	**$ (433,653)**	**$ (628,276)**	**$ 194,313**	**$ 433,963**	**$ (433,653)**

Year Ended April 30, 2006	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Eliminations	Consolidated H&R Block
Revenues	$ —	$ 771,178	$ 2,820,183	$ (16,608)	$ 3,574,753
Expenses:					
Cost of service revenues	—	203,835	1,865,580	(620)	2,068,795
Cost of other revenues	—	42,580	34,673	—	77,253
Selling, general and administrative	—	302,434	596,890	(7,633)	891,691
	—	548,849	2,497,143	(8,253)	3,037,739
Operating income	—	222,329	323,040	(8,355)	537,014
Interest expense	—	(47,242)	(1,817)	—	(49,059)
Other income, net	510,482	—	22,527	(510,482)	22,527
Income from continuing operations before taxes	510,482	175,087	343,750	(518,837)	510,482
Income taxes	212,941	75,043	141,188	(216,231)	212,941
Net income from continuing operations	297,541	100,044	202,562	(302,606)	297,541
Net income (loss) from discontinued operations	192,867	203,245	(15,162)	(188,083)	192,867
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	$ —	$ 625,769	$ 2,537,780	$ (17,180)	$ 3,146,369
Expenses:					
Cost of service revenues	—	182,905	1,617,603	(184)	1,800,324
Cost of other revenues	—	61,456	29,291	—	90,747
Selling, general and administrative	—	274,537	423,412	(4,802)	693,147
	—	518,898	2,070,306	(4,986)	2,584,218
Operating income	—	106,871	467,474	(12,194)	562,151
Interest expense	—	(59,247)	(3,293)	173	(62,367)
Other income, net	527,613	17,277	10,552	(527,613)	27,829
Income from continuing operations before taxes	527,613	64,901	474,733	(539,634)	527,613
Income taxes	207,864	31,390	181,053	(212,443)	207,864
Net income from continuing operations	319,749	33,511	293,680	(327,191)	319,749
Net income (loss) from discontinued operations	304,161	308,104	(9,918)	(298,186)	304,161
Net income	$ 623,910	$ 341,615	$ 283,762	$ (625,377)	$ 623,910

CONDENSED CONSOLIDATING BALANCE SHEETS

(in 000s)

April 30, 2007	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Eliminations	Consolidated H&R Block
Cash & cash equivalents	**$ —**	**$ 165,118**	**$ 756,720**	**$ —**	**$ 921,838**
Cash & cash equivalents — restricted	**—**	**329,000**	**3,646**	**—**	**332,646**
Receivables from customers, brokers and dealers, net	**—**	**410,522**	**—**	**—**	**410,522**
Receivables, net	**233**	**154,060**	**401,962**	**—**	**556,255**
Mortgage loans held for investment	—	**1,358,222**	—	—	**1,358,222**
Intangible assets and goodwill, net	**—**	**197,914**	**977,418**	**—**	**1,175,332**
Investments in subsidiaries	**4,586,474**	**—**	**414**	**(4,586,474)**	**414**
Assets held for sale	—	**1,720,984**	**25,975**	—	**1,746,959**
Other assets	**—**	**129,879**	**867,419**	**7**	**997,305**
Total assets	**$ 4,586,707**	**$ 4,465,699**	**$ 3,033,554**	**$ (4,586,467)**	**$ 7,499,493**
Commercial paper and other, short-term borrowings	**$ —**	**$ 1,567,082**	**$ —**	**$ —**	**$ 1,567,082**
Customer deposits	—	**1,129,263**	—	—	**1,129,263**
Accounts payable to customers, brokers and dealers	**—**	**633,189**	**—**	**—**	**633,189**
Long-term debt	**—**	**502,236**	**17,571**	**—**	**519,807**
Liabilities held for sale	**—**	**610,391**	**4,982**	**—**	**615,373**
Other liabilities	**2**	**254,906**	**1,365,372**	**—**	**1,620,280**
Net intercompany advances	**3,172,206**	**(1,341,912)**	**(1,830,294)**	**—**	**—**
Stockholders' equity	**1,414,499**	**1,110,544**	**3,475,923**	**(4,586,467)**	**1,414,499**
Total liabilities and stockholders' equity	**$ 4,586,707**	**$ 4,465,699**	**$ 3,033,554**	**$ (4,586,467)**	**$ 7,499,493**

April 30, 2006	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Eliminations	Consolidated H&R Block
Cash & cash equivalents	$ —	$ 134,407	$ 539,420	$ —	$ 673,827
Cash & cash equivalents — restricted	—	368,999	16,440	—	385,439
Receivables from customers, brokers and dealers, net	—	496,577	—	—	496,577
Receivables, net	161	107,079	368,056	—	475,296
Intangible assets and goodwill, net	—	234,727	916,922	—	1,151,649
Investments in subsidiaries	5,237,611	215	456	(5,237,611)	671
Assets held for sale	—	1,893,834	48,419	—	1,942,253
Other assets	—	422,177	441,786	(540)	863,423
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	19,261	—	417,262
Liabilities held for sale	—	216,463	3,808	—	220,271
Other liabilities	2	826,148	1,596,350	—	2,422,500
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

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

(in 000s)

Year Ended April 30, 2007	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Eliminations	Consolidated H&R Block
Net cash provided by (used in) operating activities:	**$ 47,638**	**$ (244,776)**	**$ (387,586)**	**$ —**	**$ (584,724)**
Cash flows from investing activities:					
Mortgage loans originated for investment, net	**—**	**(954,281)**	**—**	**—**	**(954,281)**
Purchases of property & equipment	**—**	**(3,063)**	**(158,028)**	**—**	**(161,091)**
Payments made for business acquisitions	**—**	**—**	**(57,554)**	**—**	**(57,554)**
Net intercompany advances	**276,450**	**—**	**—**	**(276,450)**	**—**
Investing cash flows of discontinued operations	**—**	**19,744**	**(4,382)**	**—**	**15,362**
Other, net	**—**	**3,955**	**(4,767)**	**—**	**(812)**
Net cash provided by (used in) investing activities	**276,450**	**(933,645)**	**(224,731)**	**(276,450)**	**(1,158,376)**
Cash flows from financing activities:					
Repayments of commercial paper	**—**	**(7,908,668)**	**(355,893)**	**—**	**(8,264,561)**
Proceeds from commercial paper	**—**	**8,900,750**	**355,893**	**—**	**9,256,643**
Repayments of other short-term borrowings	**—**	**(6,010,432)**	**—**	**—**	**(6,010,432)**
Proceeds from other short-term borrowings	**—**	**6,689,432**	**—**	**—**	**6,689,432**
Customer banking deposits	—	**1,129,263**	—	—	**1,129,263**
Repayments of Senior Notes	—	**(500,000)**	—	—	**(500,000)**
Dividends paid	**(171,966)**	**—**	**—**	**—**	**(171,966)**
Acquisition of treasury shares	**(188,802)**	**—**	**—**	**—**	**(188,802)**
Proceeds from issuance of common stock	**25,703**	**—**	**—**	**—**	**25,703**
Excess tax benefits on stock-based compensation	**3,236**	**—**	**—**	**—**	**3,236**
Net intercompany advances	**—**	**(1,134,416)**	**857,966**	**276,450**	**—**
Financing cash flows of discontinued operations	**—**	**52,698**	**(277)**	**—**	**52,421**
Other, net	**7,741**	**(9,495)**	**(28,072)**	**—**	**(29,826)**
Net cash provided by (used in) financing activities	**(324,088)**	**1,209,132**	**829,617**	**276,450**	**1,991,111**
Net decrease in cash and cash equivalents	**—**	**30,711**	**217,300**	**—**	**248,011**
Cash and cash equivalents at beginning of the year	**—**	**134,407**	**539,420**	**—**	**673,827**
Cash and cash equivalents at end of the year	**$ —**	**$ 165,118**	**$ 756,720**	**$ —**	**$ 921,838**

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	$ 7,823	$ 519,652	$ —	$ 594,142
Cash flows from investing activities:					
Purchases of property & equipment	—	(11,130)	(182,147)	—	(193,277)
Payments made for business acquisitions	—	(2,939)	(207,203)	—	(210,142)
Net intercompany advances	245,169	—	—	(245,169)	—
Investing cash flows of discontinued operations	—	(309,303)	(14,792)	—	(324,095)
Other, net	—	14,096	24,913	—	39,009
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	—	(6,165,463)	(258,418)	—	(6,423,881)
Proceeds from issuance of short-term debt	—	6,165,463	258,418	—	6,423,881
Repayments of lines of credit	—	(625,000)	—	—	(625,000)
Proceeds from lines of credit	—	625,000	—	—	625,000
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	98,481	—	—	—	98,481
Net intercompany advances	—	286,253	(531,422)	245,169	—
Other, net	10,026	14,538	21,081	—	45,645
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	—	(662)	(396,737)	—	(397,399)
Cash and cash equivalents at beginning of the year	—	135,069	936,157	—	1,071,226
Cash and cash equivalents at end of the year	$ —	$ 134,407	$ 539,420	$ —	$ 673,827

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	$ 123,381	$ 351,882	$ —	$ 514,397
Cash flows from investing activities:					
Purchases of property & equipment	—	(9,642)	(138,399)	—	(148,041)
Payments made for business acquisitions	—	—	(23,254)	—	(23,254)
Net intercompany advances	497,774	—	—	(497,774)	—
Investing cash flows of discontinued operations	—	119,806	(24,028)	—	95,778
Other, net	—	(6,664)	23,771	—	17,107
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	—	(5,191,623)	—	—	(5,191,623)
Proceeds from issuance of short-term debt	—	5,191,623	—	—	5,191,623
Repayments of lines of credit	—	(750,000)	—	—	(750,000)
Proceeds from lines of credit	—	750,000	—	—	750,000
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	129,324	—	—	—	129,324
Net intercompany advances	—	(324,424)	(173,350)	497,774	—
Financing cash flows of discontinued operations	—	(15,126)	—	—	(15,126)
Other, net	6,778	(1,687)	6,249	—	11,340
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	—	30,865	(2,793)	—	28,072
Cash and cash equivalents at beginning of the year	—	104,204	938,950	—	1,043,154
Cash and cash equivalents at end of the year	$ —	$ 135,069	$ 936,157	$ —	$ 1,071,226

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, 2007.

Based on our assessment, management concluded that, as of April 30, 2007, 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 near the beginning of Item 8.

(c) CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING –

During the quarter ended April 30, 2007, there were no changes that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. As described in our Form 10-Q for the quarter ended January 31, 2007, the process for valuing certain residual interests in securitizations was enhanced at the time of our third quarter filing. The residual valuation process was effectively executed for the quarter ended April 30, 2007, such that there was no material weakness in internal controls over financial reporting as of April 30, 2007.

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, 2007, 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, 2007 is as follows:

Name, age	Current position	Business experience since May 1, 2002
Mark A. Ernst, age 48	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 60	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 42	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 55	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 45	President, Retail Tax Services	President, Retail Tax Services since June 2004; McKinsey & Company from 1986 until June 2004.
Carol F. Graebner, age 53	Executive Vice President and General Counsel	Executive Vice President and General Counsel since November 2006; Executive Vice President and General Counsel - Dynegy Inc. from March 2003 until December 2005; Senior Vice President and General Counsel - Duke Energy International from 1998 to 2003.
Tammy S. Serati, age 48	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.
Steven Tait, age 47	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.

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, 2007, 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, 2007, 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, 2007, 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, 2007, 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:

   10.2 Form of 2003 Long-Term Executive Compensation Plan Award Agreement.

   10.14 H&R Block Severance Plan.

   10.15 Amendment No. 1 to the H&R Block Severance Plan.

   10.24 Employment Agreement dated November 1, 2006 between HRB Management, Inc. and Carol Graebner.

   10.39 Bridge Credit and Guarantee Agreement dated as of April 16, 2007 among Block Financial Corporation, H&R Block, Inc., the lenders party thereto, and HSBC Bank USA National Association.

   10.58 Supplemental Indenture Number One dated as of April 27, 2007 to the Indenture dated as of November 1, 2003 between Option One Owner Trust 2003-5 and Wells Fargo Bank, N.A.

   10.65 Amendment Number Six to the Second Amended and Restated Sale and Servicing Agreement dated as of March 15, 2005 among Option One Owner Trust 2001-2, Option One Loan Warehouse Corporation, Option One Mortgage Corporation and Wells Fargo Bank, N.A.

   10.66 Amendment Number Seven to the 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, N.A.,

10.69	Amendment Number Eight to the 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.
10.72	Amendment Number Ten to the Amended and Restated Indenture dated as of November 25, 2003 between Option One Owner Trust 2001-2 and Wells Fargo Bank, N.A.
10.78	Amendment No. One to the Pricing Side Letter dated as of January 19, 2007, among Option One Loan Warehouse LLC, Option One Mortgage Corporation, Option One Owner Trust 2002-3, UBS Real Estate Securities, Inc. and Wells Fargo Bank, N.A.
10.85	Amendment Number Eight to the Amended and Restated Indenture dated as of November 25, 2003 between Option One Owner Trust 2001-1A and Wells Fargo Bank, N.A.
10.92	Fifth Amended and Restated Pricing Side Letter dated as of April 27, 2007 among Option One Owner Trust 2003-4, Option One Loan Warehouse Corporation, Option One Mortgage Corporation and Wells Fargo Bank, N.A.
10.101	Amendment Number Two to the Pricing Letter dated as of December 30, 2005 among Option One Owner Trust 2005-9, Option One Loan Warehouse Corporation, Option One Mortgage Corporation and Wells Fargo Bank, N.A.
12	Computation of Ratio of Earnings to Fixed Charges for the five years ended April 30, 2007.
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

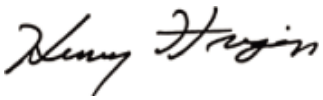
Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

H&R BLOCK, INC.

Mark A. Ernst
Chairman of the Board, President and
Chief Executive Officer
June 29, 2007

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 29, 2007.

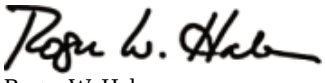
Mark A. Ernst
Chairman of the Board, President, Chief Executive
Officer and Director (principal executive officer)



Henry F. Frigon
Director

Louis W. Smith
Director

Thomas M. Bloch
Director



Roger W. Hale
Director

Rayford Wilkins, Jr.
Director

Jerry D. Choate
Director

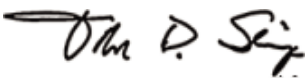
Len J. Lauer
Director

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 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.

4.5 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.

4.6 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.

4.7 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.

4.8 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.

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, filed as Exhibit 10.6 to the company's annual report on Form 10-K for the fiscal year ended April 30, 2006, file number 1-6089, is incorporated herein by reference..

10.7 *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.

10.8 *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.

10.9 *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.

10.10 *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.

10.11 *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.

10.12 *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.

10.13 *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.

10.14 *H&R Block Severance Plan.

10.15 *Amendment No. 1 to the H&R Block Severance Plan

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 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.

10.20 *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.

10.21 *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.

10.22 *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.

10.23 *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.

10.24 *Employment Agreement dated November 1, 2006 between HRB Management, Inc. and Carol Graebner.

10.25 *Separation and Release Agreement between HRB Management, Inc. and Nicholas J. Spaeth, filed as Exhibit 10.32 to the quarterly report on Form 10-Q for the quarter ended January 31, 2007, file number 106089, is incorporated herein by reference.

10.26 *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.

10.27 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. **

10.28 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. **

10.29 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. **

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

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

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

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

10.34 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, filed as Exhibit 10.38 to the annual

report on Form 10-K for the year ended April 30, 2006, file number 1-6089, is incorporated herein by reference.

10.35 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.

10.36 First Amendment dated as of November 28, 2006 to Amended and Restated Five-Year Credit and Guarantee Agreement among Block Financial Corporation, H&R Block, Inc., JP Morgan Chase Bank and various financial institutions, filed as Exhibit 10.31 to the Company's quarterly report on Form 10-Q for the quarter ended January 31, 2007, file number 1-6089, is incorporated by reference.

10.37 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.

10.38 First Amendment dated as of November 28, 2006 to Five-Year Credit and Guarantee Agreement among Block Financial Corporation, H&R Block, Inc., JP Morgan Chase Bank and various financial institutions, filed as Exhibit 10.30 to the Company's quarterly report on Form 10-Q for the quarter ended January 31, 2007, file number 1-6089, is incorporated by reference.

10.39 Bridge Credit and Guarantee Agreement dated as of April 16, 2007 among Block Financial Corporation, H&R Block, Inc., the lenders party thereto, and HSBC Bank USA, National Association.

10.40 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.

10.41 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.

10.42 Stock Purchase Agreement by and between H&R Block, Inc., Block Financial Corporation and OOMC Acquisition Corp., filed as Exhibit 10.1 to the Company's current report on Form 8-K dated April 19, 2007, file number 1-6089, is incorporated by reference.

10.43 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.

10.44 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.

10.45 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.

10.46 Omnibus Amendment Number Three to the Option One Owner Trust 2005-6 Warehouse Facility dated as of June 29, 2006 among Option One Owner Trust 2005-6, Option One Loan Warehouse Corporation, Option One Mortgage Corporation, Wells Fargo Bank, N.A. and Lehman Brothers Bank, filed as Exhibit 10.2 to the quarterly report on Form 10-Q for the quarter ended July 31, 2006, file number 1-6089, is incorporated herein by reference.

10.47 Omnibus Amendment Number Four dated as of July 12, 2006 among Option One Owner Trust 2005-6, Option One Loan Warehouse Corporation, Option One Mortgage Corporation, Option One Mortgage Capital Corporation, Option One Loan Warehouse Corporation, Wells Fargo Bank, National Association and Lehman Brothers Bank, filed as Exhibit 10.15 to the quarterly report on Form 10-Q for the quarter ended January 31, 2007, file number 1-6089, is incorporated herein by reference.

10.48 Omnibus Amendment and Consent Agreement dated as of December 29, 2006, among Option One Owner Trust 2005-6, Option One Mortgage Corporation, Option One Mortgage Capital Corporation, Option One Loan Warehouse Corporation, Wells Fargo Bank, National Association, and Lehman Brothers Bank, filed as Exhibit 10.16 to the quarterly report on Form 10-Q for the quarter ended January 31, 2007, file number 1-6089, is incorporated herein by reference.

10.49 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.

10.50 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.

10.51 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.

10.52 Amendment Number Two to Amended and Restated Sale and Servicing Agreement dated November 10, 2006 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 10.11 to the quarterly report on Form 10-Q for the quarter ended January 31, 2007, file number 1-6089, is incorporated herein by reference.

10.53 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.

10.54 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.

10.55 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.

10.56 Omnibus Amendment and Consent Agreement dated as of December 29, 2006 among Option One Owner Trust 2003-5, Option One Mortgage Corporation, Option One Mortgage Capital Corporation, Option One Loan Warehouse Corporation, Wells Fargo National Bank, National Association and Citigroup Global Markets Realty Corp.,, filed as Exhibit 10.13 to the Company's quarterly report on Form 10-Q for the quarter ended January 31, 2007, file number 1-6089, is incorporated by reference.

10.57 Omnibus Amendment dated as of January 1, 2007, among Option One Owner Trust 2003-5 Option One Mortgage Corporation, Option One Mortgage Capital Corporation, Option One Loan Warehouse Corporation, Wells Fargo Bank, National Association and Citigroup Global Markets Realty Corp., filed as Exhibit 10.14 to the Company's quarterly report on Form 10-Q for the quarter ended January 31, 2007, file number 1-6089, is incorporated by reference.

10.58 Supplemental Indenture Number One dated as of April 27, 2007 to the Indenture dated as of November 1, 2003 between Option One Owner Trust 2003-5 and Wells Fargo Bank, N.A.

10.59 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.

10.60 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.

10.61 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.

10.62 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.

10.63 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.

10.64 Amendment Number Five to the 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, N.A., filed as Exhibit 10.2 to the Company's quarterly report on Form 10-Q for the quarter ended January 31, 2007, file number 1-6089, is incorporated by reference.

10.65 Amendment Number Six to the Second Amended and Restated Sale and Servicing Agreement dated as of March 15, 2005 among Option One Owner Trust 2001-2, Option One Loan Warehouse Corporation, Option One Mortgage Corporation and Wells Fargo Bank, N.A.

10.66 Amendment Number Seven to the 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, N.A.

10.67 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.

10.68 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.

10.69 Amendment Number Eight to the Amended and Restated Note Purchase Agreement, dated November 25, 2003, among Option One Owner Trust 2001-2, Option One Loan Warehouse Corporation and Bank of America, N.A.

10.70 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.

10.71 Amendment Number Nine to the Amended and Restated Indenture dated as of November 25, 2003 between Option One Owner Trust 2001-2 and Wells Fargo Bank, N.A., filed as Exhibit 10.3 to the quarterly report on Form 10-Q for the quarter ended January 31, 2007, file number 1-6089, is incorporated herein by reference.

10.72 Amendment Number Ten to the Amended and Restated Indenture dated as of November 25, 2003 between Option One Owner Trust 2001-2 and Wells Fargo Bank, N.A.

10.73 Omnibus Amendment and Consent Agreement dated as of December 29, 2006 among Option One Owner Trust 2001-2, Option One Mortgage Corporation, Option One Mortgage Capital Corporation, Option One Loan Warehouse Corporation, Wells Fargo National Bank, National Association and Bank of America N.A., filed as Exhibit 10.4 to the quarterly report on Form 10-Q for the quarter ended January 31, 2007, file number 1-6089, is incorporated herein by reference.

10.74 Waiver and Amendment dated January 24, 2007, among Option One Owner Trust 2001-2, Option One Mortgage Corporation, Option One Mortgage Capital Corporation, Option One Loan Warehouse Corporation, Wells Fargo Bank, National Association and Bank of America, N.A. filed as Exhibit 10.5 to the quarterly report on Form 10-Q for the quarter ended January 31, 2007, file number 1-6089, is incorporated herein by reference.

10.75 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.

10.76 Second Amended and Restated Note Purchase Agreement dated as of January 19, 2007 among Option One Loan Warehouse Corporation, Option One Owner Trust 2002-3 and UBS Real Estate Securities Inc., filed as Exhibit 10.7 to the Company's quarterly report on Form 10-Q for the quarter ended January 31, 2007, file number, 1-6089, is incorporated by reference.

10.77 Second Amended and Restated Sale and Servicing Agreement dated as of January 19, 2007, among Option One Mortgage Corporation, Option One Owner Trust 2002-3, 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, 2007, file number, 1-6089, is incorporated by reference.

10.78 Amendment No. One to the Pricing Side Letter dated as of January 19, 2007 among Option One Loan Warehouse LLC, Option One Mortgage Corporation, Option One Owner Trust 2002-3, UBS Real Estate Securities Inc. and Wells Fargo Bank, N.A.

10.79 Indenture dated as of January 19, 2007 between 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 January 31, 2007, file number 1-6089, is incorporated by reference.

10.80 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.

10.81 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.

10.82 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.

10.83 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.

10.84 Amendment Number Seven, dated April 28, 2006, to Indenture between Option One Owner Trust 2001-1A and Wells Fargo Bank N.A., filed as Exhibit 10.70 to the Company's annual report on Form 10-K for the year ended April 30, 2006, file number 1-6089, is incorporated by reference.

10.85 Amendment Number Eight to the Amended and Restated Indenture dated as of November 25, 2003 between Option One Owner Trust 2001-1A and Wells Fargo Bank N.A.

10.86 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.

10.87 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.

10.88 Omnibus Amendment and Consent Agreement dated as of December 29, 2006, among Option One Owner Trust 2001-1A, Option One Mortgage Corporation, Option One Mortgage Capital Corporation, Option One Loan Warehouse Corporation, Wells Fargo National Bank, National Association and Greenwich Capital Financial Products, Inc., filed as Exhibit 10.1 to the quarterly report on Form 10-Q for the quarter ended January 31, 2007, file number 1-6089, is incorporated herein by reference.

10.89 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.

10.90 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.

10.91 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, 2005, file number 1-6089, is incorporated herein by reference.

10.92 Fifth Amended and Restated Pricing Side Letter dated as of April 27, 2007 among Option One Owner Trust 2003-4, Option One Loan Warehouse Corporation, Option One Mortgage Corporation, and Wells Fargo Bank, N.A.

10.93 Omnibus Amendment and Consent Agreement dated as of December 29, 2006 among Option One Owner Trust 2003-4, Option One Mortgage Corporation, Option One Mortgage Capital Corporation, Option One Loan Warehouse Corporation, Wells Fargo National Bank, National Association, Falcon Asset Securitization Company LLC, Park Avenue Receivables Company LLC and JPMorgan Chase Bank N.A., filed as Exhibit 10.9 to the quarterly report on Form 10-Q for the quarter ended January 31, 2007, file number 1-6089, is incorporated herein by reference.

10.94 Waiver dated January 24, 2007, among Option One Owner Trust 2003-4, Option One Mortgage Corporation, Option One Mortgage Capital Corporation, Option One Loan Warehouse Corporation, Wells Fargo Bank, National Association, Falcon Asset Securitization Company LLC, Part Avenue Receivables Company LLC and JP Morgan Chase Bank, N.A., filed as Exhibit 10.10 to the quarterly report on Form 10-Q for the quarter ended January 31, 2007, file number 1-6089, is incorporated herein by reference.

10.95 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.

10.96 Amendment Number One to Sale and Servicing Agreement dated as of January 16, 2007, among Option One owner Trust 2005-9, Option One Loan Warehouse Corporation, Option One Mortgage Corporation 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 January 31, 2007, file number 1-6089, is incorporated by reference.

10.97 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.

10.98 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.

10.99 Supplemental Indenture No. 2 dated as of January 16, 2007, between Option One Owner Trust 2005-9 and Wells Fargo Bank, N.A. filed as Exhibit 10.20 to the Company's quarterly report on Form 10-Q for the quarter ended January 31, 2007, file number 1-6089, is incorporated by reference.,

10.100 Omnibus Amendment and Consent Agreement dated as of December 29,2006, among Option One Owner Trust 2005-9, Option One Mortgage Corporation, Option One Mortgage Capital Corporation, Option One Loan Warehouse Corporation, Wells Fargo Bank, National Association, DB Structured Products, Inc., Gemini Securitization Corp., LLC, Aspen Funding Corp. and Newport Funding Corp., filed as Exhibit 10.19 to the Company's quarterly report on Form 10-Q for the quarter ended January 31, 2007, file number 1-6089, is incorporated by reference.

10.101 Amendment Number Two to the Pricing Letter dated as of December 30, 2005 among Option One Owner Trust 2005-9, Option One Loan Warehouse Corporation, Option One Mortgage Corporation and Wells Fargo Bank, N.A.

10.102 Sale and Servicing Agreement dated as of January 1, 2007, among Option One Loan Warehouse Corporation, Option One Mortgage Corporation, Option One Mortgage Capital Corporation, Option One Owner Trust 2007-5A and Wells Fargo Bank, N.A., filed as Exhibit 10.22 to the Company's quarterly report on Form 10-Q for the quarter ended January 31, 2007, file number 1-6089, is incorporated by reference.

10.103 Note Purchase Agreement dated as of January 1, 2007, among Option One Loan Warehouse Corporation, Option One Owner Trust 2007-5A and Citigroup Global Markets Realty Corp., filed as Exhibit 10.23 to the Company's quarterly report on Form 10-Q for the quarter ended January 31, 2007, file number 1-6089, is incorporated by reference.

10.104 Indenture dated as of January 1, 2007, among Option One Owner Trust 2007-5A and Wells Fargo Bank, N.A., filed as Exhibit 10.24 to the Company's quarterly report on Form 10-Q for the quarter ended January 31, 2007, file number 1-6089, is incorporated by reference.

12 Computation of Ratio of Earnings to Fixed Charges for the five years ended April 30, 2007.

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.

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* 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.

Table of Contents

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, 2007, we reported on the consolidated balance sheets of H&R Block, Inc. and its subsidiaries (the Company) as of April 30, 2007 and 2006, 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, 2007, 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, 2007, 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.

/s/ KPMG LLP

Kansas City, Missouri
June 29, 2007

H&R BLOCK, INC.

SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS

YEARS ENDED APRIL 30, 2007, 2006 AND 2005

Description	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Deductions (1)	Balance at End of Period
Allowance for Doubtful Accounts - deducted from accounts receivable in the balance sheet				
2007	$66,216,000	$ 66,697,000	$31,362,000	$ 101,551,000
2006	$35,318,000	$ 39,594,000	$ 8,696,000	$ 66,216,000
2005	$37,408,000	$ 52,159,000	$54,249,000	$ 35,318,000
Liability related to Mortgage operations restructuring charge				
2007	$ 7,558,000	$ 18,740,000	$11,691,000	$ 14,607,000
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.

Exhibit 10.2

H&R BLOCK, INC.

2003 LONG-TERM EXECUTIVE COMPENSATION PLAN

AWARD AGREEMENT

This Award Agreement is entered into by and between H&R Block, Inc., a Missouri corporation (the "**Company**"), and _____ ("Recipient").

WHEREAS, the Company provides certain incentive awards to key employees of subsidiaries of the Company under the H&R Block, Inc. 2003 Long-Term Executive Compensation Plan (the "Plan");

WHEREAS, receipt of such Awards under the Plan are conditioned upon a Recipient's execution of an Award Agreement wherein Recipient agrees to abide by certain terms and conditions authorized by the Compensation Committee of the Board of Directors;

WHEREAS, the Recipient has been selected by the Compensation Committee or the Chief Executive Officer of the Company as a key employee of one of the subsidiaries of the Company and is eligible to receive an Award under the Plan.

NOW THEREFORE, in consideration of the parties promises and agreements set forth in this Award Agreement, the sufficiency of which the parties hereby acknowledge,

IT IS AGREED AS FOLLOWS:

1. Definitions. Whenever a term is used in this Agreement or an Award Certificate issued under the Plan, the following words and phrases shall have the meanings set forth below unless the context plainly requires a different meaning, and when a defined meaning is intended, the term is capitalized.

1.1 Amount of Gain Realized. The Amount of Gain Realized shall mean the Recipient's gain or benefit derived with regard to an Award. The Amount of Gain Realized with regard to the types of awards listed in this Section 1.1 shall have the following meanings:

(a) Restricted Shares. The Amount of Gain Realized shall be equal to the number of Shares delivered to the Recipient multiplied by the FMV of one Share of the Company's Common Stock on the date the Shares were no longer considered to be held by the Company.

(b) Stock Option. The Amount of Gain Realized shall be equal to the number of shares of Common Stock purchased pursuant to such exercise multiplied by the difference between the FMV of one Share of the Company's Common Stock on the date of exercise and the Option Price.

(c) Performance Shares. The Amount of Gain Realized shall be equal to the number of Shares delivered to the Recipient multiplied by the FMV of one Share of the Company's Common Stock on the date the Shares became vested in or paid to the Recipient.

1.2 Award. Award means one or more of the following: shares of Common Stock, Restricted Shares, Stock Options, Stock Appreciation Rights, Performance Shares, Performance Units and any other rights which may be granted to a Recipient under the Plan.

1.3 Award Certificate means the document issued by the Committee or the CEO for the Company confirming a grant of an Award under the Plan. The Award Certificate may be an email, letter or any form acceptable to the Committee.

1.4 Award Date means the date specified by the Committee on which a grant of an Award shall become effective, which shall not be earlier than the date on which the Committee takes action with respect thereto.

1.5 Common Stock. Common Stock means the Common Stock, without par value of H&R Block, Inc.

1.6 Change of Control. For the purposes of this Agreement, a "Change of Control" means:

(a) The purchase or other acquisition (other than from the Company) by any person, entity or group of persons, within the meaning of Section 13(d) or 14(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") (excluding, for this purpose, the Company or its subsidiaries or any employee benefit plan of the Company or its subsidiaries), of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 20% or more of either the then-outstanding shares of Common Stock or the combined voting power of the Company's then-outstanding voting securities entitled to vote generally in the election of directors; or

(b) Individuals who, as of the date hereof, constitute the Board of Directors of the Company (the "Board" and, as of the date hereof, the "Incumbent Board") cease for any reason to constitute at least a majority of the Board, *provided that* any person who becomes a director subsequent to the date hereof whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board (other than an individual whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of directors of the Company, as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act) shall be, for purposes of this section, considered as though such person was a member of the Incumbent Board; or

(c) The completion of a reorganization or consolidation approved by the shareholders of the Company, in each case with respect to which persons who were the shareholders of the Company immediately prior to such reorganization or consolidation do not, immediately thereafter, own more than 50% of, respectively, the Common Stock and the combined voting power entitled to vote generally in the election of directors of the reorganized or consolidated corporation's then-outstanding voting securities, or the sale of all or substantially all of the assets of the Company as approved by the shareholders of the Company, or approval by the shareholders of the Company of a liquidation or dissolution of the Company.

1.7 Company. Company means H&R Block, Inc., a Missouri corporation, and, unless the context otherwise requires, includes its "subsidiary corporations" (as defined in

Section 424(f) of the Internal Revenue Code) and their respective divisions, departments and subsidiaries and the respective divisions, departments and subsidiaries of such subsidiaries.

1.8 Code. Code means the Internal Revenue Code of 1986, as amended.

1.9 Committee. Committee means the Compensation Committee of the Board of Directors for H&R Block, Inc.

1.10 Closing Price. Closing Price shall mean the last reported market price for one share of Common Stock, regular way, on the New York Stock Exchange (or any successor exchange or stock market on which such last reported market price is reported) on the day in question. In the event the exchange is closed on the day on which Closing Price is to be determined or if there were no sales reported on such date, Closing Price shall be computed as of the last date preceding such date on which the exchange was open and a sale was reported.

1.11 Disability. Disability or disabled shall be as defined in the employment practices or policies of the applicable subsidiary of the Company in effect from time to time during the term hereof or, absent such definition, then as defined in the H&R Block Retirement Savings Plan or any successor plan thereto.

1.12 Earnings Target. Earnings Target means a benchmark established by the Committee for measuring the net income of the Company or a subsidiary thereof.

1.13 Fair Market Value. Fair Market Value ("FMV") means, the average of the high and low reported sales prices for one share of Common Stock, regular way, as reported by the New York Stock Exchange (or any successor exchange or stock market on which such high and low sales prices are reported) on the day in question. In the event the exchange is closed on the day on which FMV is to be determined or if there were no sales reported on such date, FMV shall be computed as of the last date preceding such date on which the exchange was open and a sale was reported.

1.14 Last Day of Employment. Last Day of Employment means the date the Recipient ceases for whatever reason to be an employee and is not immediately thereafter and continuously employed as a regular active employee by any other direct or indirect subsidiary of the Company

1.15 Line of Business. Line of Business of the Company means any line of business of the subsidiary of the Company by which Recipient was employed as of the Last Day of Employment, as well as any one or more lines of business of any other subsidiary of the Company by which Recipient was employed during the two-year period preceding the Last Day of Employment, *provided that*, if Recipient's employment was, as of the Last Day of Employment or during the two-year period immediately prior to the Last Day of Employment, with HRB Management, Inc. or any successor entity thereto, "Line of Business of the Company" shall mean any lines of business of the Company and all of its subsidiaries.

1.16 Performance Shares. Performance Shares means the right to receive, upon satisfying designated performance goals within the Performance Period, shares of Common Stock, cash, or a combination of cash and shares of Common Stock, based on the market value of shares of Common Stock covered by such Performance Shares at the close of the Performance Period.

1.17 Qualifying Termination. Qualifying Termination shall mean Recipient's termination of employment which meets the definition of a "Qualifying Termination" under a severance plan sponsored by the Company or a subsidiary of the Company.

1.18 Recipient. Recipient means an employee of the Company who has been granted an Award under the Plan.

1.19 Restricted Shares. Restricted Share ("Shares") means a share of Common Stock issued to a Recipient under the Plan subject to such terms and conditions, including without limitation, forfeiture or resale to the Company, and to such restrictions against sale, transfer or other disposition, as the Committee may determine at the time of issuance.

1.20 Retirement. Retirement means the Recipient's voluntary termination of employment with the Company and each of its subsidiaries, at or after attaining age 65.

1.21 S&P 500 Index. S&P 500 Index means the market-value weighted performance of the stocks of the 500 US Companies listed by Standard & Poor's.

1.22 Stock Option. Stock Option means the right to purchase, upon exercise of a stock option granted under the Plan, shares of the Company's Common Stock. A Stock Option may be an Incentive Stock Option which meets the requirements of Code Section 422(b) or a Nonqualified Stock Option.

1.23 Total Shareholder Return. Total Shareholder Return ("TSR") means the percentile ranking of the sum of stock price appreciation of and dividend reinvestment with respect to a share of Company Stock.

2. Restricted Shares.

2.1 Issuance of Shares. As of an Award Date, the Company shall issue the number of Restricted Shares evidenced by the Award Certificate (the "Shares") to the Recipient which shall be held by the Company and subject to the substantial risk of forfeiture.

2.2 Substantial Risk of Forfeiture. Each grant of an Award shall provide that the Shares covered thereby shall be subject to a "substantial risk of forfeiture" within the meaning of Code Section 83 for a period to be determined by the Committee on the Award Date, and any such Award may provide for the earlier termination of such risk of forfeiture in the event of change of control of the Company or other similar transaction or event.

2.3 Restrictions on Transfer. During for period the Shares are subject to substantial risk of forfeiture, the Shares shall be held by the Company, or its transfer agent or other designee and shall be subject to restrictions on transfer. The certificate or certificates representing such Shares shall contain the following restrictive transfer legend:

"THE TRANSFERABILITY OF THIS CERTIFICATE AND THE SHARES OF STOCK REPRESENTED HEREBY ARE SUBJECT TO THE TERMS AND CONDITIONS (INCLUDING FORFEITURE) OF THE 2003 LONG-TERM EXECUTIVE COMPENSATION PLAN OF H&R BLOCK, INC. AND AN AGREEMENT ENTERED INTO BETWEEN THE REGISTERED OWNER AND H&R BLOCK, INC. COPIES OF SUCH PLAN AND AGREEMENT ARE

ON FILE WITH THE SECRETARY OF H&R BLOCK, INC."

2.4 Dividends and Voting Rights. During the time that the Company, or its transfer agent or other designee, continues to hold any Shares subject to substantial risk of forfeiture, the Recipient shall be entitled to receive any dividends paid with respect to such Shares and to vote such Shares on any matters submitted by the Company to its shareholders. Dividends paid with respect to such Shares may not be reinvested under the H&R Block, Inc. Dividend Reinvestment Plan, as amended.

2.5 Requirement of Employment. The Recipient must remain in continuous employment of the Company during the period any Shares are subject to substantial risk of forfeiture. Absent an agreement to the contrary, if Recipient's employment with the Company should terminate for any reason, other than Retirement, all Shares then held by the Company or its transfer agent or other designee, if any, shall be forfeited by the Recipient and Recipient authorizes the Company and its stock transfer agent to cause delivery, transfer and conveyance of the Shares to the Company.

2.6 Retirement. If a Recipient retires from employment with any subsidiary of the Company at least one year after the anniversary of an Award Date, all Shares issued on such Award Date shall no longer be considered to be held by the Company.

2.7 Delivery of Shares. Any Shares to be delivered to the Recipient by the Company in accordance with an Award shall be transferred directly into a brokerage account established for the Recipient at a financial institution the Committee shall select at its sole discretion (the "Financial Institution") or delivered in certificate form free of restrictions, such method to be selected by the Committee in its sole discretion. The Recipient agrees to complete any documentation with the Company or the financial institution that is necessary to affect the transfer of Shares to the financial institution before the delivery will occur.

3. <u>Stock Option.</u>

3.1 Grant of Stock Option. As of an Award Date, the Company may grant the Recipient the right and option to purchase a number of shares of Common Stock identified as subject to a Incentive Stock Option, and a number of shares of Common Stock identified as subject to Nonqualified Stock Option (hereinafter collectively referred to as "Stock Option"). The right and option to purchase shares of Common Stock identified as subject to Nonqualified Stock Option shall not constitute and shall not be treated for any purpose as an "incentive stock option," as such term is defined in the Code.

3.2 Number of Shares. The Award Certificate shall specify the number of shares granted on the Award Date.

3.3 Option Price. The Award Certificate shall specify the Option Price per Share for each Stock Option, which shall be equal to or greater than the FMV on the Award Date.

3.4 Vesting. The Award Certificate shall specify the period of continuous employment of the Recipient by the Company that is necessary before the Stock Options or installments thereof shall become exercisable.

3.5 Acceleration of Vesting. Notwithstanding Section 3.4, the Recipient shall become vested in all or a portion of the Stock Options awarded under the Plan on the

occurrence of any of the following events:

(a) Change of Control. The Recipient may purchase 100% of the total Stock Options granted under an Award Certificate provided that the Change of Control occurs at least six months after the Award Date.

(b) Retirement. The Recipient may purchase 100% of the total Stock Options granted under an Award Certificate provided that the Recipient Retires more than one year after the Award Date.

(c) Qualifying Termination. The Recipient experiences a Qualifying Termination, all or a portion of the then outstanding Stock Options granted under an Award Certificate shall vest according to the severance plan and Recipient may purchase 100% of such vested Stock Options.

(d) Employment Agreement. The Recipient may purchase all or a portion of the total vested Stock Options granted under an Award Certificate upon the occurrence of certain events specified in the Recipient's employment agreement.

If application of this Section 3.5 results in the acceleration of vesting of all or any portion of the Stock Options, shares of Common Stock then subject to Sock Options shall be allocated such that the number of shares subject to Incentive Stock Option shall be the maximum number of shares that may be subject to Incentive Stock Option under Section 422 of the Code for the calendar year in which the acceleration of vesting results.

3.6 *Term of Option.* No Stock Option awarded under the Plan may be exercised more than ten years from the Award Date. Except as provided in this Section 3.6 and Section 3.7, all Stock Options shall terminate when the Recipient ceases, for whatever reason, to be an employee of any of the subsidiaries of the Company. In the event the Recipient ceases to be an employee of any of the subsidiaries of the Company because of Retirement, Disability or Termination without Cause, Recipient may exercise any vested Stock Options up to three months after employment ceases.

3.7 Recipient's Death. In the event the Recipient ceases to be an employee of any of the subsidiaries of the Company because of Death, the person or persons to whom the Recipient's rights under the Stock Option shall pass by the Recipient's will or laws of descent and distribution may exercise any vested Stock Options for a period up to twelve months after the date of death.

3.8 Exercise of Stock Option. The Stock Option granted under the Plan shall be exercisable from time to time by the Recipient by giving written notice of exercise to the Company specifying the number of whole shares to be purchased, and accompanied by full payment of the purchase price. The right to purchase shall be cumulative, so that the full number of shares of Common Stock that become purchasable at any time need not be purchased at such time, but may be purchased at any time or from time to time thereafter (but prior to the termination of the Stock Option).

3.9 Payment of the Option Price. Full payment of the Option Price for shares purchased shall be made at the time the Recipient exercises the Stock Option. Payment of the aggregate Option Price may be made in (a) cash, (b) by delivery of Common Stock (with a value equal to the Closing Price of Common Stock on the last trading date preceding the date on

which the Sock Option is exercised), or (c) a combination thereof. Payment shall be made only in cash unless at least six months have elapsed between the date of Recipient's acquisition of each share of Common Stock delivered by Recipient in full or partial payment of the aggregate Option Price and the date on which the Stock Option is exercised.

3.10 No Shareholder Privileges. Neither the Recipient nor any person claiming under or through him or her shall be, or have any of the rights or privileges of, a shareholder of the Company with respect to any of the Common Stock issuable upon the exercise of this Stock Option, unless and until certificates evidencing such shares of Common Stock shall have been duly issued and delivered.

4. Performance Shares.

4.1 Grant of Performance Shares. As of the Award Date, the Company may grant an Award of Performance Shares evidenced by the Award Certificate (the "Performance Shares").

4.2 Performance Period. The Award Certificate shall specify the Performance Period over which each Performance Share shall be earned and certified by the Committee during which a Recipient must satisfy any designated Performance Goals in order to receive an Award.

4.3 Performance Goals. The Award Certificate shall specify the Performance Goals to be met during the Performance Period as a condition of payment of the Performance Share Award.

4.4 Payment Formula. The Award Certificate shall specify the Payment Formula for determining the amount of any payment to be made based upon attainment of the Performance Goals. The Payment Formula may provide a minimum acceptable level of achievement below which no payment will be made and a maximum payment. No award of Performance Shares may exceed the maximum payment established by the Committee on the Grant Date.

4.5 Vesting. Recipient shall become vested in a Performance Award immediately upon completion of the Performance Period for which the Performance Shares attach. If the Recipient's employment with the Company should terminate prior to completion of a Performance Period for any reason other than: Retirement, Qualifying Termination, Disability or death, the Recipient shall forfeit all rights in the Performance Shares and Recipient shall not be entitled to a distribution.

4.6 Retirement. Upon Retirement, Recipient shall be entitled to a pro-rata award of any Performance Shares awarded based upon actual performance. Such award shall be calculated and paid at the end of the Performance Period. Receipt of the retirement award may be conditioned upon Recipient's execution of a separation agreement.

4.7 Qualifying Termination. In the event Recipient experiences a Qualifying Termination, Recipient shall be entitled to a pro-rata award of any Performance Shares awarded more than one year prior to Qualifying Termination based upon actual performance through date of termination. Such award shall be calculated and paid at the end of the Performance Period. Receipt of the award may be conditioned upon Recipient's execution of a separation agreement.

4.8 Disability. In the event Recipient terminates employment due to Disability, Recipient shall be entitled to a pro-rata award of any Performance Shares awarded based upon actual performance through date of termination. Such award shall be calculated as of last calculable date (e.g. last month close) and paid as soon as practicable.

4.9 Death. In the event Recipient terminates employment due to Recipient's death, Recipient's estate shall be entitled to a pro-rata award of any Performance Shares awarded based upon actual performance through date of termination. Such award shall be calculated as of last calculable date (e.g. last month close) and paid as soon as practicable.

4.10 Change of Control. If Recipient terminates employment after a Change of Control, Recipient shall be entitled to a pro-rata award of any Performance Shares awarded upon actual performance through date of termination. Such award shall be calculated as of last calculable date (e.g. last month close) and paid in cash as soon as practicable.

4.11 Certification of a Performance Award. Upon completion of a Performance Period or such earlier period, and prior to the payment of any Performance Award to a Recipient, the Committee shall certify in writing that the Performance Goal has been satisfied.

4.12 Payment of Performance Awards. Performance Awards shall be paid out, in Shares of the Common Stock or cash (as determined by the Committee in its sole discretion), within 60 days of the end of a Performance Period.

5. Covenants.

5.1 Violation of Noncompete, Nonhire, Nonsolicitation and Nonuse Provisions. Recipient acknowledges that Recipient's agreement to this Section 5 is a key consideration for any Award under the Plan. Recipient hereby agrees with Company as follows:

5.2 Non-Compete. During Recipient's employment, or within one year after Recipient's Last Day of Employment, Recipient shall not engage in, ownership of, or control of any interest in (except as a passive investor in less than one percent of the outstanding securities of publicly held companies), or act as an officer, director or employee of, or consultant, advisor or lender to, any firm, corporation, partnership, limited liability company, institution, business, government agency, or entity that engages in any line of business that is competitive with any Line of Business of the Company.

5.3 Non-Hire. During Recipient's employment, or within one year after the Last Day of Employment, Recipient shall not employ or solicit for employment by any employer other than a subsidiary of the Company any employee of any subsidiary of the Company, or recommend any such employee for employment to any employer (other than a subsidiary of the Company) at which Recipient is or intends to be (a) employed, (b) a member of the Board of Directors, (c) a partner, (d) providing consulting services, or (e) an owner, regardless of Recipient's percentage of ownership interest in such employer (except if such employer is a publicly traded company and Recipient is a passive investor in less than one percent of its outstanding securities).

5.4 Non-Solicitation. During Recipient's employment, or within one year after the Last Day of Employment, Recipient shall not directly or indirectly solicit or enter into any arrangement with any person or entity which is, at the time of the solicitation, a

significant customer of a subsidiary of the Company for the purpose of engaging in any business transaction of the nature performed by such subsidiary, or contemplated to be performed by such subsidiary, for such customer, *provided that* this Section 5.4 shall only apply to customers for whom Recipient personally provided services while employed by a subsidiary of the Company or customers about whom or which Recipient acquired material information while employed by a subsidiary of the Company; or

5.5 Non-Use and Non-Disclosure. During Recipient's employment or within one year after the Last Day of Employment, Recipient shall not misappropriate or improperly use or disclose confidential information of the Company and/or its subsidiaries.

5.6 Forfeiture of Rights. Notwithstanding anything herein to the contrary, if Recipient violates any provisions of this Section 5, Recipient shall forfeit all rights to payments or benefits under the Plan. All Shares held on such date by the Company or its transfer agent or other designee, if any, shall be forfeited by the Recipient and the Recipient authorizes the Company and its stock transfer agent to cause delivery, transfer and conveyance of the Shares to the Company. All Stock Options and Performance Shares outstanding on such date shall terminate.

5.7 Remedies. Notwithstanding anything herein to the contrary, if Recipient violates any provisions of this Section 5, whether prior to, on or after any Settlement of an Award under the Plan, then Recipient shall promptly pay to Company and amount equal to the aggregate Amount of Gain Realized by the Recipient on all Stock Options exercised or Awards paid under the Plan after a date commencing one year prior to Recipient's Last Day of Employment. The Recipient shall pay Company within three (3) business days after the date of any written demand by the Company to the Recipient.

5.8 Remedies payable in Company's Common Stock or Cash. The Recipient shall pay the amounts described in Section 5.7 in the Company's Common Stock or cash.

5.9 Remedies without Prejudice. The remedies provided in this Section 5 shall be without prejudice to the rights of the Company and/or the rights of any one or more of its subsidiaries to recover any losses resulting from the applicable conduct of the Recipient and shall be in addition to any other remedies the Company and/or any one or more subsidiaries may have, at law or in equity, resulting from such conduct.

5.10 Survival. Recipient's obligations in this Section 5 shall survive and continue beyond settlement of all Awards under the Plan and any termination or expiration of this Agreement for any reason.

6. Transfer Restrictions.

6.1 Transfer Restrictions on Shares. During the period that Shares are held by the Company hereunder for delivery to the Recipient, such Shares and the rights and privileges conferred hereby shall not be transferred, assigned, pledged, or hypothecated in any way (whether by operation of law or otherwise) and shall not be subject to sale under execution, attachment or similar process. Upon any attempt, contrary to the terms hereof, to transfer, assign, pledge, hypothecate, or otherwise so dispose of such Shares or any right or privilege conferred hereby, or upon any attempted sale under any execution, attachment, or similar process upon such Shares or the rights and privileges hereby granted, then and in any such event this Agreement and the rights and privileges hereby granted shall immediately

terminate. Immediately after such termination, such Shares shall be forfeited by the Recipient and the Recipient hereby authorizes the Company and its stock transfer agent to cause the delivery, transfer and conveyance of such Shares to the Company.

6.2 Non-Transferability of Awards Generally. Any Award (including all rights, privileges and benefits conferred under such Award) shall not be transferred, assigned, pledged, or hypothecated in any way (whether by operation of law or otherwise) and shall not be subject to sale under execution, attachment or similar process. Upon any attempt to transfer, assign, pledge, hypothecate, or otherwise dispose of any Award, or of any right or privilege conferred hereby, contrary to the provisions hereof, or upon any attempted sale under any execution, attachment, or similar process upon the rights and privileges hereby granted, then and in any such event such Award and the rights and privileges hereby granted shall immediately become null and void.

7. Miscellaneous.

7.1 No Employment Contract. This Agreement does not confer on the Recipient any right to continued employment for any period of time, is not an employment contract, and shall not in any manner modify any effective contract of employment between the Recipient and any subsidiary of the Company.

7.2 Adjustment of Shares. If there shall be any change in the capital structure of the Company, including but not limited to a change in the number or kind of the outstanding shares of the Common Stock resulting from a stock dividend or split-up, or combination or reclassification of such shares (or of any stock or other securities into which shares shall have been changed, or for which they shall have been exchanged), then the Board of Directors of the Company shall make such equitable adjustments with respect to the Stock Option, or any other provisions of the Plan, as it deems necessary or appropriate to prevent dilution or enlargement of the Stock Option rights hereunder or of the shares subject to this Stock Option.

7.3 Merger, Consolidation, Reorganization, Liquidation, etc. If the Company shall become a party to any corporate merger, consolidation, major acquisition of property for stock, reorganization, or liquidation, the Board of Directors shall, acting in its absolute and sole discretion, make such arrangements, which shall be binding upon the Recipient of unexpired Stock Option rights or Shares not yet delivered, for the substitution of a new award or other contractual rights with regard to such Award.

7.4 Interpretation and Regulations. The Board of Directors of the Company shall have the power to provide regulations for administration of the Plan by the Committee and to make any changes in such guidelines as from time to time the Board may deem necessary. The Committee shall have the sole power to determine, solely for purposes of the Plan and this Agreement, the date of and circumstances which shall constitute a cessation or termination of employment and whether such cessation or termination is the result of retirement, death, disability or termination without cause or any other reason, and further to determine, solely for purposes of the Plan and this Agreement, what constitutes continuous employment with respect to the exercise of Stock Option or delivery of Shares under the Plan (except that absence on leave approved by the Committee or transfers of employment among the subsidiaries of the Company shall not be considered an interruption of continuous employment for any purpose under the Plan).

7.5 Reservation of Rights. If at any time counsel for the Company determines that qualification of the Shares under any state or federal securities law, or the consent or approval of any governmental regulatory authority, is necessary or desirable as a condition of the executing an Award or benefit under the Plan, then such action may not be taken, in whole or in part, unless and until such qualification, registration, consent or approval shall have been effected or obtained free of any conditions such counsel deems unacceptable.

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

7.7 Withholding of Taxes. To the extent that the Company is required to withhold taxes in compliance with any federal, state, local or foreign law in connection with any payment made or benefit realized by a Recipient or other person under this Plan, it shall be a condition to the receipt of such payment or the realization of such benefit that the Recipient or such other person make arrangements satisfactory to the Company for the payment of all such taxes required to be withheld. At the discretion of the Committee, such arrangements may include relinquishment of a portion of such benefit. In the event the Recipient has not made arrangements, the Company shall withhold the amount of such tax obligations from such dividend payment or instruct the Recipient's employer to withhold such amount from the Recipient's next payment(s) of wages. The Recipient authorizes the Company to so instruct the Recipient's employer and authorizes the Recipient's employer to make such withholdings from payment(s) of wages.

7.8 Waiver. The failure of the Company to enforce at any time any terms, covenants or conditions of this Agreement shall not be construed to be a waiver of such terms, covenants or conditions or of any other provision. Any waiver or modification of the terms, covenants or conditions of this Agreement shall only be effective if reduced to writing and signed by both Recipient and an officer of the Company.

7.9 Incorporation. The terms and conditions of this Award Agreement are authorized by the Compensation Committee of the Board of Directors of H&R Block, Inc. The terms and conditions of this Award Agreement are deemed to be incorporated into and form a part of every Award under the Plan unless the Award Certificate relating to a specific grant or award provides otherwise.

7.10 Notices. Any notice to be given to the Company or election to be made under the terms of this Agreement shall be addressed to the Company (Attention: Long-Term Incentive Department) at One H&R Block Way, Kansas City Missouri 64105 or at such other address as the Company may hereafter designate in writing to the Recipient. Any notice to be given to the Recipient shall be addressed to the Recipient at the last address of record with the Company or at such other address as the Recipient may hereafter designate in writing to the Company. Any such notice shall be deemed to have been duly given when deposited in the United States mails via regular or certified mail, addressed as aforesaid, postage prepaid.

7.11 Choice of Law. This Award Agreement shall be governed by and construed and enforced in accordance with the laws of the State of Missouri without reference to principles of conflicts of laws.

7.12 Choice of Forum and Jurisdiction. Recipient and Company agree that any proceedings to enforce the obligations and rights under this Award Agreement must be brought in Missouri District Court located in Jackson County, Missouri, or in the United States District Court for the Western District of Missouri in Kansas City, Missouri. Recipient agrees and submits to personal jurisdiction in either court. Recipient and Company further agree that this Choice of Forum and Jurisdiction is binding on all matters related to Awards under the Plan and may not be altered or amended by any other arrangement or agreement (including an employment agreement) without the express written consent of Recipient and H&R Block, Inc.

7.13 Attorneys Fees. Recipient and Company agree that in the event of litigation to enforce the terms and obligations under this Award Agreement, the party prevailing in any such cause of action will be entitled to reimbursement of reasonable attorney fees.

7.14 Relationship of the Parties. Recipient acknowledges that this Award Agreement is between H&R Block, Inc. and Recipient. Recipient further acknowledges that H&R Block, Inc. is a holding company and that Recipient is not an employee of H&R Block, Inc.

7.15 Headings. The section headings herein are for convenience only and shall not be considered in construing this Agreement.

7.16 Amendment. No amendment, supplement, or waiver to this Agreement is valid or binding unless in writing and signed by both parties.

7.17 Execution of Agreement. This Agreement shall not be enforceable by either party, and Recipient shall have no rights with respect to the Long Term Incentive Award, unless and until it has been (1) signed by Recipient and on behalf of the Company by an officer of the Company, *provided that* the signature by such officer of the Company on behalf of the Company may be a facsimile or stamped signature, and (2) returned to the Company.

In consideration of said Award and the mutual covenants contained herein, the parties agree to the terms set forth above.

The parties hereto have executed this Award Agreement effective as of June 30, 2006.

H&R BLOCK, INC.

_____
(Signature of Recipient)

By: _____

_____
(Social Security Number)

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

Exhibit 10.14

H&R BLOCK SEVERANCE PLAN
Amended and Restated August 11, 2003

1. Purpose. The H&R Block Severance Plan is a welfare benefit plan established by HRB Management, Inc., an indirect subsidiary of H&R Block, Inc., for the benefit of certain subsidiaries of H&R Block, Inc. in order to provide severance compensation and benefits to certain employees of such subsidiaries whose employment is involuntarily terminated under the conditions set forth herein. This document constitutes both the plan document and the summary plan description required by the Employee Retirement Income Security Act of 1974.

2. Definitions.

(a) "Cause" means one or more of the following grounds of an Employee's termination of employment with a Participating Employer:

(i) misconduct that interferes with or prejudices the proper conduct of the Company, the Employee's Participating Employer, or any other affiliate of the Company, or which may reasonably result in harm to the reputation of the Company, the Employee's Participating Employer, or any other affiliate of the Company;

(ii) commission of an act of dishonesty or breach of trust resulting or intending to result in material personal gain or enrichment of the Employee at the expense of the Company, the Employee's Participating Employer, or any other affiliate of the Company;

(iii) commission of an act materially and demonstrably detrimental to the good will of the Company, the Employee's Participating Employer, or any other affiliate of the Company, which act constitutes gross negligence or willful misconduct by the Employee in the performance of the Employee's material duties;

(iv) material violations of the policies or procedures of the Employee's Participating Employer, including, but not limited to, the H&R Block Code of Business Ethics & Conduct, except those policies or procedures with respect to which an exception has been granted under authority exercised or delegated by the Participating Employer;

(v) disobedience, insubordination or failure to discharge employment duties;

(vi) conviction of, or entrance of a plea of guilty or no contest, to a misdemeanor (involving an act of moral turpitude) or a felony;

(vii) inability of the Employee, the Company, the Employee's Participating Employer, and/or any other affiliate of the Company to participate, in whole or in part, in any activity subject to governmental regulation as the result of any action or inaction on the part of the Employee;

(viii) the Employee's death or total and permanent disability. The term "total and permanent disability" will have the meaning ascribed thereto under any long-term disability plan maintained by the Employee's Participating Employer;

(ix) any grounds described as a discharge or other similar term on the Participating Employer's separation review form or other similar document stating the reason for the Employee's termination of employment, including poor performance; or

(x) any other grounds of termination of employment that the Participating Employer deems for cause.

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

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

(c) "Employee" means a regular full-time or part-time, active employee of a Participating Employer whose employment with a Participating Employer is not subject to an employment contract that contains a provision that includes severance benefits. This definition expressly excludes employees of a Participating Employer classified as seasonal, temporary and/or inactive and employees who are customarily employed by a Participating Employer less than 20 hours per week.

(d) "ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

(e) "Hour, of Service" means each hour for which an individual was entitled to compensation as a regular full-time or part-time employee from a subsidiary of the Company.

(f) "Line of Business of the Company" with respect to a Participant means any line of business of the Participating Employer by which the Participant was employed as of the Termination Date, as well as any one or more lines of business of any other subsidiary of the Company by which the Participant was employed during the two-year period preceding the Termination Date, provided that, if Participant's employment was, as of the Termination Date or during the two-year period immediately prior to the Termination Date, with HRB Management, Inc. or any successor entity thereto, "Line of Business of the Company" shall mean any lines of business of the Company and all of its subsidiaries.

(g) "Monthly Salary" means –

(i) with respect to an Employee paid on a salary basis, the Employee's current annual salary divided by 12; and

(ii) with respect to an Employee paid on an hourly basis, the Employee's current hourly rate times the number of hours he or she is regularly scheduled to work per week multiplied by 52 and then divided by 12.

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

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

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

(k) "Plan Administrator" and "Plan Sponsor" means HRB Management, Inc. The address and telephone number of HRB Management, Inc. is 4400 Main Street, Kansas City, Missouri 64111, (816) 753-6900. The Employer Identification Number assigned to HRB Management, Inc. by the Internal Revenue Service is 43-1632589.

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

(i) the elimination of the Employee's position where the Employee was offered another position with a subsidiary of the Company at a comparable salary and benefit level, or where the termination results from a sale of assets or other corporate acquisition or disposition;

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

(iii) the termination of an Employee for Cause; or

(iv) the non-renewal of employment contracts.

(m) "Release" means that agreement signed by and between an Employee who is eligible to participate in the Plan and the Employee's Participating Employer under which the Employee releases all known and potential claims against the Employee's Participating Employer and all of such employer's parents, subsidiaries, and affiliates.

(n) "Release Date" means, with respect to a Release that includes a revocation period, the date immediately following the expiration date of the revocation period in the Release that has been fully executed by both parties. "Release Date" means, with

respect to a Release that does not include a revocation period, the date the Release has been fully executed by both parties.

(o) “Severance Period” means the period of time during which a Participant may receive benefits under this Plan. The Severance Period with respect to a Participant begins on the Termination Date. A Participant’s Severance Period will be the shorter of (i) 12 months or (ii) a number of months equal to the whole number of Years of Service determined under Section 2(q), unless earlier terminated in accordance with Section 8 of the Plan.

(p) “Termination Date” means the date the Employee severs employment with a Participating Employer.

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

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

Despite an Employee’s Years of Service calculated in accordance with the above, an Employee whose pay grade at his or her Participating Employer fits in the following categories at the time of the Qualifying Termination will be credited with no less than the specified Minimum Years of Service and no more than the specified Maximum Years of Service listed in the following table as applicable to such pay grade:

Pay Grade	Minimum Years of Service	Maximum Years of Service
81-89 and 231-235	6	18
65-80, 140-145, 185-190, and 218-230	3	18
57-64, 115-135, 175-180, and 210-217	1	18
48-56, 100-110, 170, and 200-209	1	18

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

3. **Eligibility and Participation.**

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

4. **Severance Compensation.**

(a) Amount. Subject to Section 8, each Participant will receive during the Severance Period from the applicable Participating Employer aggregate severance compensation equal to:

(i) the Participant's Monthly Salary multiplied by the Participant's Years of Service; plus

(ii) one-twelfth of the Participant's target payout under the Short-Term Incentive Program of the Participating Employer in effect at the time of his or her Termination Date multiplied by the Participant's Years of Service; plus

(iii) an amount to be determined by the Participating Employer at its sole discretion, which amount may be zero.

(b) Timing of Payments. Except as stated in Section 4(c), and subject to Section 8,

(i) the sum of any amounts determined under Sections 4(a)(i) and 4(a)(ii) of the Plan will be paid in semi-monthly or bi-weekly installments (the timing and amount of each installment as determined by the Participating Employer) during the Severance Period beginning after the later of the Termination Date or the Release Date; and

(ii) any amounts determined under Section 4(a)(iii) of the Plan will be paid in one lump sum within 15 days after the later of the Termination Date or the Release Date, unless otherwise agreed in writing by the Participating Employer and Participant or otherwise required by law.

(c) Death. In the event of the Participant's death prior to receiving all payments due under this Section 4, any unpaid severance compensation will be paid (i) in the same manner as are death benefits under the Participant's basic life insurance coverage provided by the Participant's Participating Employer, and (ii) in accordance with the Participant's beneficiary designation under such coverage. If no such coverage exists, or if no beneficiary designation exists under such coverage as of the date of death of the Participant, the severance compensation will be paid to the Participant's estate in one-lump sum.

5. **Health and Welfare Benefits.**

(a) Benefits. In addition to the severance compensation provided pursuant to Section 4 of the Plan, a Participant may continue to participate in the following health and welfare benefits provided by his or her Participating Employer during the Severance Period on the same basis as employees of the Participating Employer:

(i) medical;

(ii) dental;

(iii) vision;

(iv) employee assistance;

(v) medical expense reimbursement and dependent care expense reimbursement benefits provided under a cafeteria plan;

(vi) life insurance (basic and supplemental); and

(vii) accidental death and dismemberment insurance (basic and supplemental).

For the purposes of any of the above-described benefits provided under a Participating Employer's cafeteria plan, a Qualifying Termination constitutes a "change in status" or "life event".

(b) Payment and Expiration. Payment of the Participant's portion of contribution or premiums for such selected benefits will be withheld from any severance compensation payments paid to the Participant under this Plan. The Participating Employer's partial subsidization of such coverages will remain in effect until the earlier of:

(i) the expiration or earlier termination of the Employee's Severance Period, after which time the Participant may be eligible to elect to continue coverage of those benefits listed above that are provided under group health plans in accordance with his or her rights under Section 4980B of the Internal Revenue Code; or

(ii) the Participant's attainment of or eligibility to attain health and welfare benefits through another employer after which time the Participant may be eligible to elect to continue coverage of those benefits listed above that are provided under group health plans in accordance with his or her rights under Section 4980B of the Internal Revenue Code.

6. **Stock Options.**

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

(b) Post-Termination Exercise Period. Subject to the expiration dates and other terms of the applicable stock option agreements, the Participant may elect to have the right to exercise any outstanding incentive stock options and nonqualified stock options granted prior to the Termination Date to the Participant under the Company's 1984 Long-Term Executive Compensation Plan, its 1993 Long-Term Executive Compensation Plan, or any successor plan to its 1993 Long-Term Executive Compensation Plan that are vested as of the Termination Date (or, if later, the Release Date), whether due to the operation of Section 6(a), above, or otherwise, at any time during the Severance Period and, except in the event that the Severance Period terminates pursuant to Section 8(a), for a period up to 3 months after the end of the Severance Period (notwithstanding Section 8). Any such election shall apply to all outstanding incentive stock options and nonqualified stock options, will be irrevocable and must be made in writing and delivered to the Plan Administrator on or before the later of the Termination Date or Release Date. If the Participant fails to make an election, the Participant's right to exercise such options will expire 3 months after the Termination Date.

(c) Stock Option Agreement Amendment. The operation of Sections 6(a) and 6(b), above, are subject to the Participant's execution of an amendment to any affected stock option agreements, if necessary.

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

8. **Termination of Benefits.** Any right of a Participant to severance compensation and benefits under the Plan, and all obligations of his or her Participating Employer to pay any unpaid severance compensation or provide benefits under the Plan will terminate as of the day:

(a) The Participant has engaged in any conduct described in Sections 8(a)(i), 8(a)(ii), 8(a)(iii) or 8(a)(iv), below, as the same may be limited pursuant to Section 8(a)(vi).

(i) During the Severance Period, the Participant's engagement in, ownership of, or control of any interest in (except as a passive investor in less than one percent of the outstanding securities of publicly held companies), or acting as an officer, director or employee of, or consultant, advisor or lender to, any firm, corporation, partnership, limited liability company, institution, business, government agency, or entity that engages in any line of business that is competitive with any Line of Business of the Company, *provided that* this Section 8(a)(i) shall not apply to the Participant if the Participant's primary place of employment by a subsidiary of the Company as of the Termination Date is in either the State of California or the State of North Dakota.

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

(iii) During the Severance Period, the Participant directly or indirectly solicits or enters into any arrangement with any person or entity which is, at the time of the solicitation, a significant customer ,of a subsidiary of the Company for the purpose of engaging in any business transaction of the nature performed by such subsidiary, or contemplated to be performed by such subsidiary, for such customer, *provided that* this Section 8(a)(iii) shall only apply to customers for whom the Participant personally provided services while employed by a subsidiary of the Company or customers about whom or which the Participant acquired material information while employed by a subsidiary of the Company.

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

(v) If the Participant engaged in any of the conduct described in Sections 8(a)(i), 8(a)(ii), 8(a)(iii) or 8(a)(iv) during or after Participant's term of employment with a Participating Employer, but prior to the

commencement of the Severance Period, and such engagement becomes known to the Participating Employer during the Severance Period, such conduct shall be deemed, for purposes of Sections 8(a)(i), 8(a)(ii), 8(a)(iii) or 8(a)(iv) to have occurred during the Severance Period.

(vi) If the Participant is a party to an employment contract with a Participating Employer that contains a covenant or covenants relating to the Participant's engagement in conduct that is the same as or substantially similar to the conduct described in any of Sections 8(a)(i), 8(a)(ii), 8(a)(iii) or 8(a)(iv), and any specific conduct regulated in such covenant or covenants in such employment contract is more limited in scope geographically or otherwise than the corresponding specific conduct described in any of such Sections 8(a)(i), 8(a)(ii), 8(a)(iii) or 8(a)(iv), then the corresponding specific conduct addressed in the applicable Section 8(a)(i), 8(a)(ii), 8(a)(iii) or 8(a)(iv) shall be limited to the same extent as such conduct is limited in the employment contract and the Participating Employer's rights and remedy with respect to such conduct under this Section 8 shall apply only to such conduct as so limited.

(b) The Participant is rehired by or her Participating Employer or hired by any other subsidiary of the Company in any position other than a position classified as seasonal by such employer.

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

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

11. **Claims Procedures.**

(a) **Filing a Claim for Benefits.** Participants are not required to submit claim forms to initiate payment of benefits under this Plan. To make a claim for benefits, individuals other than Participants who believe they are entitled to receive benefits under this Plan and Participants who believe they have been denied certain benefits under the Plan must write to the Plan Administrator. These individuals and such

Participants are hereinafter referred to in this Section 11 as “Claimants.” Claimants must notify the Plan Administrator if they will be represented by a duly authorized representative with respect to a claim under the Plan.

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

(i) the specific reason for the denial;

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

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

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

(c) **Appeal of Denied Claim and Final Decision.** If the Claimant should appeal to the Plan Administrator, the Claimant, or his or her duly authorized representative, must submit, in writing, whatever issues and comments the Claimant or his or her duly authorized representative feels are pertinent. The Claimant, or his or her duly authorized representative, may review and request pertinent Plan documents. The Plan Administrator will reexamine all facts related to the appeal and make a final determination as to whether the denial of benefits is justified under the circumstances. The Plan Administrator will advise the Claimant in writing of its decision within 60 days of the Claimant’s written request for review, unless special circumstances (such as a hearing) require an extension of time, in which case the Plan Administrator will make a decision as soon as possible, but no later than 120 days after its receipt of a request for review.

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

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

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

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

16. **Withholding of Taxes.** The applicable Participating Employer may withhold from any benefit payable under the Plan all federal, state, city or other taxes as may be required pursuant to any law, governmental regulation or ruling. The Participant shall pay upon demand by the Company or the Participating Employer any taxes required to be withheld or collected by the Company or the Participating Employer upon the exercise by the Participant of a nonqualified stock option granted under the Company's 1984 Long-Term Executive Compensation Plan or its 1993 Long-Term Executive Compensation Plan. If the Participant fails to pay any such taxes associated with such exercise upon demand, the Participating Employer shall have the right, but not the obligation, to offset such taxes against any unpaid severance compensation under this Plan.

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

18. **No Assignment.** The Employee's right to receive payments of severance compensation and benefits under the Plan are not assignable or transferable, whether by pledge, creation of a security interest, or otherwise. In the event of any attempted assignment or transfer contrary to this Section 18, the applicable Participating Employer will have no liability to pay any amount so attempted to be assigned or transferred.

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

HRB Management, Inc.
Attn: Secretary
4400 Main Street
Kansas City, Missouri 64111

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

(a) examine without charge, at the Plan Administrator's office, all documents governing the Plan and a copy of the latest annual report (Form 5500 Series) filed by

the Plan with the U.S. Department of Labor and available at the Public Disclosure Room of the Pension and Welfare Benefit Administration;

(b) obtain, upon written request to the Plan Administrator, copies of documents governing the operation of the Plan, copies of the latest annual report (Form 5500 Series) and an updated summary plan description. The Plan Administrator may make a reasonable charge for the copies; and

(c) receive a summary of the Plan's annual financial report if required to be filed for the year. The Plan Administrator is required by law to furnish each participant with a copy of this summary annual report if an annual report is required to be filed for the year.

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

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

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

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

IN WITNESS WHEREOF, HRB Management, Inc. adopts this Severance Plan, as amended and restated, effective this 11th day of August, 2003.

HRB MANAGEMENT, INC.

/s/ Mark A. Ernst
Mark A. Ernst
President and Chief Executive Officer

Schedule A

Participating Employers

Block Financial Corporation

Financial Marketing Services, Inc.

Franchise Partner, Inc.

H&R Block Investments, Inc.

H&R Block Services, Inc. and its U.S.-based direct and indirect subsidiaries

HRB Business Services, Inc.

H&R Block Small Business Resources, Inc.

HRB Management, Inc.

HRB Retail Services, Inc.

OLDE Financial Corporation and its U.S.-based direct and indirect subsidiaries, which subsidiaries include H&R Block Financial Advisors, Inc.

Exhibit 10.15

AMENDMENT NO. 1
TO THE
H&R BLOCK SEVERANCE PLAN

HRB Management, Inc. (the "Company") adopted the H&R Block Severance Plan (the "Plan"), effective as of April 23, 2001 (Amended and Restated August 11, 2003). Section 9 of the Plan provides that the Plan Sponsor may amend the Plan at any time.

This Amendment amends the Plan as amended and restated effective August 11, 2003, as well as certain prior versions of the Plan, as detailed below.

AMENDMENT

1. Section 2 is amended, effective May 1, 2004, by deleting Section 2(q) in its entirety replacing with the following.

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

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

Despite an Employee's Years of Service calculated in accordance with the above, an Employee whose pay grade at his or her Participating Employer fits in the following categories at the time of the Qualifying Termination will be credited with no less than the specified Minimum Years of Service and no more than the specified Maximum Years of Service listed in the following table as applicable to such pay grade:

Pay Grade	Minimum Years of Service	Maximum Years of Service
81 and above	6	18
65-80, 140-145, 185-190	3	18
58-64, 117-135, 173-180, 299	1	18
30-43, 100-116, 170-172, 298	1	18

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

2. Section 5, "Health and Welfare Benefits" is deleted in its entirety and replaced with the following, effective January 1, 2004:

5. **Health and Welfare Benefits.**

(a) Benefits. In addition to the severance compensation provided pursuant to Section 4 of the Plan, a Participant may continue to participate in the following health benefits provided by his or her Participating Employer during the Continuing Coverage Period on the same basis as employees of the Participating Employer:

(i). medical;

(ii). dental;

(iii). vision;

(b) Other Benefits. In addition to the severance compensation provided pursuant to Section 4 of the Plan, a Participant may continue to participate in the following health benefits provided by his or her Participating Employer during the Severance Period on the same basis as employees of the Participating Employer;

(i). employee assistance;

(ii). medical expense reimbursement and dependent care expense reimbursement benefits provided under a cafeteria plan;

(iii). life insurance (basic and supplemental); and

(iv). accidental death and dismemberment insurance (basic and supplemental).

For the purposes of any of the above-described benefits provided under a Participating Employer's cafeteria plan, a Qualifying Termination constitutes a "change in status" or "life event."

(c) Payment and Expiration. Payment of the Participant's portion of contribution or premiums for such selected benefits will be withheld from any severance compensation payments paid to the Participant under this Plan. The Participating Employer's partial subsidization of such coverages will remain in effect until the earlier of:

(i) the expiration of earlier termination of the Employee's Severance Period, after which the Participant may be eligible to elect to continue coverage of those benefits listed above that are provided under group health plans in accordance with his or her rights under Section 4980B of the Internal Revenue Code; or

(ii) the Participant's attainment of or eligibility to attain health and welfare benefits through another employer after which time the Participant may be eligible to elect to continue coverage of those benefits listed above that are provided under group health plans in accordance with his or her rights under Section 4980B of the Internal Revenue Code.

IN WITNESS WHEREOF, HRB Management, Inc. has adopted this Amendment No. 1 to the H&R Block Severance Plan, this _____ day of May, 2004.

HRB MANAGEMENT, INC.

Date: _____

By: /s/ Mark A. Ernst
Mark A. Ernst
President and Chief Executive Officer

Exhibit 10.24

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT ("Agreement") is entered into as of November 1, 2006, by and between HRB Management, Inc., a Missouri Corporation (the "Company"), and Carol Graebner ("Executive").

ARTICLE ONE

EMPLOYMENT

1.01 Agreement as to Employment. Effective November 13, 2006, (the "Employment Date"), the Company hereby employs Executive to serve in the capacity of Executive Vice President and General Counsel of H&R BLOCK, INC., a Missouri Corporation ("Block") and the indirect parent corporation of the Company, and Executive hereby accepts such employment by the Company, subject to the terms of this Agreement. The Company reserves the right, in its sole discretion, to change the title of Executive at any time.

1.02 Duties.

(a) Executive is employed by the Company to serve as its Executive Vice President and General Counsel, subject to the authority and direction of Block's Board of Directors (the "Board") and the Chief Executive Officer of Block. Subject to Section 1.07 hereof, the Company reserves the right to modify, delete, add, or otherwise change Executive's job responsibilities and job description, in its sole discretion, at any time. Executive will perform such other duties, which may be beyond the scope of the job description, as are assigned to Executive from time to time.

(b) So long as Executive is employed under this Agreement, Executive agrees to devote Executive's full business time and efforts exclusively on behalf of the Company and to competently and diligently discharge Executive's duties hereunder. Executive will not be prohibited from engaging in such personal, charitable, or other nonemployment activities that do not interfere with Executive's full-time employment hereunder and that do not violate the other provisions of this Agreement or the H&R Block, Inc. Code of Business Ethics & Conduct, which Executive acknowledges having read and understood. Executive will comply fully with all reasonable policies of the Company as are from time to time in effect and applicable to Executive's position. Executive understands that the business of Block, the Company, and/or any other direct or indirect subsidiary of Block (each such other subsidiary an "Affiliate") may be subject to governmental regulation, some of which may require Executive to submit to background investigation as a condition of Block, the Company, and/or Affiliates' participation in certain activities subject to such regulation. If Executive, Block, the Company, or Affiliates are unable to participate, in whole or in part, in any such activity as the result of any action or inaction on the part of Executive, then this Agreement and Executive's employment hereunder may be terminated by the Company without notice.

1.03 Compensation.

(a) Base Salary. The Company will pay to Executive a gross salary at an annual rate of $400,000 ("Base Salary"), payable semimonthly or at any other pay periods as the Company may use for its other executive-level employees. The Base Salary will be reviewed for adjustment, no less often than annually during the term of Executive's employment hereunder and, if adjusted, such adjusted amount will become the "Base Salary" for purposes of this Agreement.

(b) Short-Term Incentive Compensation. Executive shall participate in the H&R Block short-term incentive program (which for certain highly compensated executives may include the H&R Block Executive Performance Short-Term Incentive Plan) (the "Program") as applicable to executives of the Company for its fiscal year 2006 (which ends April 30, 2007) and fiscal years thereafter. Under such Program, Executive shall have an aggregate target incentive award equal to 60% of Base Salary and an opportunity to earn a bonus at a maximum of 200% of Base Salary (prorated as described below). Notwithstanding the foregoing, under the Program for fiscal year 2006, Executive shall receive a minimum guaranteed short-term compensation award in the amount of $200,000 (the "Minimum Guarantee"). Other than the payment of the Minimum Guarantee, the payment of the award under the Program shall be based upon such performance criteria which shall be determined by the Compensation Committee of the Board. Under such Program for fiscal year 2006 only, and other than the Minimum Guarantee, which in no event will be prorated, Executive's actual incentive compensation shall be prorated based upon Executive's actual gross wages for the fiscal year, provided that, subject to Section 1.07, Executive must remain employed through April 30, 2007 to receive any payments under the Program. Such incentive compensation, including the Minimum Guarantee, shall be paid to Executive following the completion of fiscal year 2006 when the incentive compensation is paid to other senior executives of the Company.

(c) Stock Options. As authorized under the H&R Block 2003 Long-Term Executive Compensation Plan, as amended (the "2003 Plan"), Executive shall be granted on the first day of the month following the Employment Date a stock option under the 2003 Plan to purchase 50,000 shares of Block's common stock at an option price per share equal to its closing price on the New York Stock Exchange on the first day of the month following the Employment Date (e.g. December 1, 2006) such option to expire on the tenth anniversary of the date of grant; to vest and become exercisable as to one-third (16,667) of the shares covered thereby on the first anniversary of the date of grant, as to an additional one-third (16,667) of such shares on the second anniversary of the date of grant, and as to the remaining one-third (16,666) of the shares on the third anniversary of the date of grant; to be an incentive stock option for the maximum number of shares permitted by Internal Revenue Code of 1986, as amended (the "Code") Section 422 and the regulations promulgated thereunder; and to otherwise be a nonqualified stock option. Any non-vested portion of stock options awarded pursuant to this Section 1.03(c) shall vest upon a Change of Control (as such term is defined herein) pursuant to the terms of the H&R Block 2003 Long-Term Executive Compensation Plan Award Agreement (the "Award Agreement").

(d) Restricted Stock. Executive shall be awarded on the first day of the month

following the Employment Date (e.g. December 1, 2006), 10,000 Restricted Shares of Block's common stock under the 2003 Plan. One-third of the 10,000 shares shall vest (*i.e.*, the restrictions on such shares shall terminate), respectively, on each of the first three anniversaries following the Employment Date (e.g., 3,334 shall vest on the first anniversary, 3,333 shall vest on the second anniversary, and 3,333 shall vest on the third anniversary). Prior to the time such Restricted Shares are so vested, (i) such Restricted Shares shall be nontransferable, and (ii) Executive shall be entitled to receive any cash dividends payable with respect to unvested Restricted Shares and to vote such unvested Restricted Shares at any meeting of the shareholders of Block. Any non-vested portion of the Restricted Shares awarded pursuant to this Section 1.03(d) shall, upon a Change of Control (as such term is defined herein) and termination of Executive's employment in accordance with the terms of Section 1.07(c)(i), vest and the restrictions on such shares (or the equivalent of such shares of any successor entity) shall terminate effective as of the Last Day of Employment (as defined in Section 1.07(c)(i) of this Agreement).

1.04 Relocation Benefits.

(a) The Company will reimburse Executive for reasonable packing, shipping, transportation costs and other expenses incurred by Executive in relocating Executive, Executive's family and personal property to the Greater Kansas City Area, in accordance with the H&R Block Executive Relocation Program.

(b) To the extent that Executive incurs taxable income related to any relocation benefits paid pursuant to this Agreement, the Company will pay to Executive such additional amount as is necessary to "gross up" such benefits and cover the anticipated income tax liability resulting from such taxable income.

1.05 Business Expenses. The Company will promptly pay directly, or reimburse Executive for, all business expenses, to the extent such expenses are paid or incurred by Executive during the term hereof in accordance with the Company's policy in effect from time to time and to the extent such expenses are reasonable and necessary to the conduct by Executive of the Company's business.

1.06 Fringe Benefits; Short-Term and Long-Term Incentive Compensation. During the term of Executive's employment hereunder, and subject to the discretionary authority given to the applicable benefit plan administrators, the Company will make available to Executive such insurance, sick leave, deferred compensation, short-term incentive compensation, bonuses, stock options, performance shares, restricted stock, retirement, vacation, and other like benefits as are approved and provided from time to time to the other executive-level employees of the Company or Affiliates. Coverage and eligibility for any such benefits are subject to the terms of the various Plans as they may be amended from time to time pursuant to their respective terms.

1.07 Termination of Employment.

(a) Without Notice. The Company may, at any time, in its sole discretion, terminate

the employment of Executive without notice in the event of:

(i) Executive's misconduct that materially interferes with or prejudices the proper conduct of the business of Block, the Company or any Affiliate or which may reasonably result in harm to the reputation of Block, the Company and/or any Affiliate; or

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

(iii) Executive's commission of any act of dishonesty or breach of trust resulting or intending to result in material personal gain or enrichment of Executive at the expense of Block or any subsidiary of Block; or

(iv) Executive's violation of Article Two or Three of this Agreement; or

(v) Executive's conviction of a misdemeanor (involving an act of moral turpitude) or a felony; or

(vi) Executive's disobedience, insubordination or failure to discharge Executive's duties; or

(vii) The inability of Executive, Block, the Company, and/or an Affiliate to participate, in whole or in part, in any activity subject to governmental regulation as the result of any action or inaction on the part of Executive, as described in Section 1.02(b); or

(viii) Executive's death or total and permanent disability. The term "total and permanent disability" will have the meaning ascribed thereto under any long-term disability plan maintained by the Company or Block for executives of the Company.

(b) With Notice. Either party may terminate the employment of Executive for any reason, or no reason, by providing not less than 45 days' prior written notice of such termination to the other party, and, if such notice is properly given, Executive's employment hereunder will terminate as of the close of business on the 45th day after such notice is deemed to have been given or such later date as is specified in such notice.

(c) Termination Due to a Change of Control.

(i) If Executive terminates Executive's employment under this Agreement during the 180-day period following the date of the occurrence of a "Change of Control" of Block then, upon any such termination of Executive's employment and conditioned on Executive's execution of an agreement with the Company under which Executive releases all known and potential claims related to Executive's employment against Block, the

Company, and Affiliates, the Company will provide Executive with Executive's election (the "Change of Control Election") of the same level of severance compensation and benefits as would be provided under the H&R Block Severance Plan (the "Severance Plan") as the Severance Plan exists (A) on the date of this Agreement or (B) on Executive's last day of active employment by the Company or any Affiliate (the "Last Day of Employment"), as if Executive had incurred a termination of employment that would result in the receipt of benefits as a participant in the Severance Plan; provided, however, (1) Executive will be credited with no less than 12 "Years of Service" (as such term is defined in the Severance Plan) for the purpose of determining severance compensation under Section 4(a) of the Severance Plan as it exists on the date of this Agreement or the comparable section of a relevant severance plan as it may exist on Executive's Last Day of Employment ("Future Severance Plan"), notwithstanding any provision in the Severance Plan or Future Severance Plan to the contrary, and (2) all restrictions on any nonvested Restricted Shares (as defined in the applicable award agreement) awarded to Executive pursuant to Section 1.03(d), or under the 2003 Plan or any comparable plan shall terminate and such Restricted Shares shall be fully vested, notwithstanding any provision in the Severance Plan or Future Severance Plan to the contrary. The Severance Plan as it exists on the date of this Agreement is attached hereto as Exhibit A. Executive must notify the Company in writing within 5 business days after Executive's Last Day of Employment of Executive's Change of Control Election. Severance compensation and benefits provided under this Section 1.07(c) will terminate immediately if Executive violates Sections 3.02, 3.03, or 3.05 of this Agreement or becomes reemployed with the Company or an Affiliate.

(ii) For the purpose of this subsection, a "Change of Control" means:

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

(B) individuals who, as of the date hereof, constitute the Board (as of the date hereof, the "Incumbent Board") cease for any reason to constitute at least a majority of the Board, provided that any individual or individuals

becoming a director subsequent to the date hereof, whose election, or nomination for election by Block's shareholders, was approved by a vote of at least a majority of the Board (or nominating committee of the Board) will be considered as though such individual were a member or members of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of the directors of Block (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act); or

(C) the completion of a reorganization, merger or consolidation of Block, in each case, with respect to which all or substantially all of the individuals and entities who were the respective beneficial owners of the voting securities of Block immediately prior to such reorganization, merger or consolidation do not, following such reorganization, merger or consolidation, beneficially own, directly or indirectly, more than 50% of the then outstanding voting securities entitled to vote generally in the election of directors of the corporation resulting from such reorganization, merger or consolidation; or

(D) a complete liquidation or dissolution of Block or the sale or other disposition of all or substantially all of the assets of Block.

(d) Severance. Executive will receive severance compensation and benefits as would be provided under the Severance Plan, as the same may be amended from time to time, if Executive incurs a "Qualifying Termination," as such term is defined in Section 1.07(e) hereof (and without regard to whether the termination is with or without notice under this Agreement), and executes an agreement with the Company under which Executive releases all known and potential claims related to Executive's employment against Block, the Company, and Affiliates. Such compensation and benefits will be Executive's election (the "Severance Election") of the same level of severance compensation and benefits as would be provided under the Severance Plan as such plan exists either (A) on the date of this Agreement or (B) Executive's Last Day of Employment; provided, however, (1) the "Severance Period" (as such term is defined in the Severance Plan) will be 12 months, notwithstanding any provision in the Severance Plan or Future Severance Plan to the contrary, (2) Executive will be credited with no less than 12 "Years of Service" (as such term is defined in the Severance Plan) for the purpose of determining severance compensation under Section 4(a) of the Severance Plan as it exists on the date of this Agreement or Future Severance Plan, notwithstanding any provision in the Severance Plan as it exists on the date of this Agreement or Future Severance Plan to the contrary, and (3) all restrictions on any nonvested Restricted Shares awarded to Executive, including those awarded pursuant to Section 1.03(d), that would have vested in accordance with their terms by reason of lapse of time within 18 months after the effective date of the termination of employment (absent such termination of employment) shall terminate and such Restricted Shares shall be fully vested and any Restricted Shares that would not have vested in accordance with their terms by reason of lapse of time within 18 months after the effective date of termination of employment shall be forfeited, notwithstanding any provision in the Severance Plan as it exists on the date of this Agreement or Future Severance Plan to the contrary.

The Severance Plan as it exists on the date of this Agreement is attached hereto as Exhibit A. Executive must notify the Company in writing within 5 business days after Executive's Last Day of Employment of Executive's Severance Election. Severance compensation and benefits provided under this Section 1.07(d) will terminate immediately if Executive violates Sections 3.02, 3.03, or 3.05 of this Agreement or becomes reemployed with the Company or an Affiliate.

(e) Qualifying Termination. For purposes of this Agreement, and notwithstanding the terms of the Severance Plan or Future Severance Plan or any other agreement between Executive and the Company, the term "Qualifying Termination" shall mean (i) the termination of Executive's employment by Executive upon or in connection with the redefinition of Executive's position to a lower salary rate or grade, or a reduction in Executive's Base Salary, duties and responsibilities; or (ii) the involuntary termination of Executive, other than the termination by the Company of Executive's employment pursuant to Section 1.07(a) of this Agreement .

(f) Further Obligations. Upon termination of Executive's employment under this Agreement, neither the Company, Block, nor any Affiliate will have any further obligations under this Agreement and no further payments of Base Salary or other compensation or benefits will be payable by the Company, Block, or any Affiliate to Executive, except (i) as set forth in this Section 1.07, (ii) as required by the express terms of any written benefit plans or written arrangements maintained by the Company or Block and applicable to Executive at the time of such termination of Executive's employment, or (iii) as may be required by law.

ARTICLE TWO

CONFIDENTIALITY

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

public by parties hereto without violation of this Agreement.

2.02 Proprietary Information is Property of Block.

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

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

ARTICLE THREE

NON-HIRING; NON-SOLICITATION; NO CONFLICTS; NON-COMPETITION

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

3.02 Non-Hiring. During the period of Executive's employment hereunder, and for a period of 1 year after Executive's Last Day of Employment, Executive may not directly or indirectly recruit, solicit, or hire any Block Employee or otherwise induce any such Block Employee to leave the employment of Block (or the applicable employer-subsidiary of Block) to become an employee of or otherwise be associated with any other party or with Executive or any company or business with which Executive is or may become associated. The running of the 1-year period will be suspended during any period of violation and/or any period of time required to enforce this covenant by litigation or threat of litigation.

3.03 Non-Solicitation. During the period of Executive's employment hereunder and during the time Executive is receiving payments hereunder, and for 2 years after the later of Executive's Last Day of Employment or cessation of such payments, Executive may not directly or indirectly solicit or enter into any arrangement with any person or entity which is, at the time of the solicitation, a significant customer of the Company or an Affiliate for the purpose of engaging in any business transaction of the nature performed by the Company or such Affiliate, or contemplated to be performed by the Company or such Affiliate, for such customer, provided that this Section 3.03 will only apply to customers for whom Executive personally provided services while employed by the Company or an Affiliate or customers about whom or which Executive acquired material information while employed by the Company or an Affiliate. The running of the 2-year period will be suspended during any period of violation and/or any period of time required to enforce this covenant by litigation or threat of litigation.

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

3.05 Non-Competition. During the period of Executive's employment hereunder and for 2 years after the Executive's Last Day of Employment, Executive may not engage in, or own or control any interest in (except as a passive investor in less than one percent of the outstanding securities of publicly held companies), or act as an officer, director or employee of, or consultant, advisor or lender to, any firm, corporation, partnership, limited liability company, institution, business, government agency, or entity that engages in any line of business that is competitive with any Line of Business of Block (as defined below), provided that this Section 3.05 will not apply to Executive if Executive's primary place of employment by the Company or an Affiliate as of the Last Day of Employment is in either the State of California or the State of North Dakota. "Line of Business of Block" means any line of business (including lines of

business under evaluation or development) of the Company, as well as any one or more lines of business (including lines of business under evaluation or development) of any Affiliate by which Executive was employed during the two-year period preceding the Last Day of Employment, provided that, "Line of Business of Block" will in all events include, but not be limited to, the income tax return preparation business, and provided further that if Executive's employment was, as of the Last Day of Employment or during the 2-year period immediately prior to the Last Day of Employment, with HRB Management, Inc. or any successor entity thereto, "Line of Business of Block" means any line of business (including lines of business under evaluation or development) of Block and all of its subsidiaries. The running of the 2-year period will be suspended during any period of violation and/or any period of time required to enforce this covenant by litigation or threat of litigation.

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

ARTICLE FOUR

MISCELLANEOUS

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

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

4.03 Specific Performance. The parties hereto acknowledge that money damages alone will not adequately compensate the Company or Block or Executive for breach of any of the covenants and agreements set forth in Articles Two and Three herein and, therefore, in the event of

the breach or threatened breach of any such covenant or agreement by either party, in addition to all other remedies available at law, in equity or otherwise, a wronged party will be entitled to injunctive relief compelling specific performance of (or other compliance with) the terms hereof.

4.04 Successors and Assigns. This Agreement is binding upon Executive and the heirs, executors, assigns and administrators of Executive or Executive's estate and property and will inure to the benefit of the Company, Block and their successors and assigns. Executive may not assign or transfer to others the obligation to perform Executive's duties hereunder. The Company may assign this Agreement to an Affiliate with the consent of Executive, in which case, after such assignment, the "Company" means the Affiliate to which this Agreement has been assigned.

4.05 Withholding Taxes. From any payments due hereunder to Executive from the Company, there will be withheld amounts reasonably believed by the Company to be sufficient to satisfy liabilities for federal, state, and local taxes and other charges and customary withholdings. Executive remains primarily liable to such authorities for such taxes and charges to the extent not actually paid by the Company. This Section 4.05 does not affect the Company's obligation to "gross up" any relocation benefits paid to Executive pursuant to Subsection 1.04(b).

4.06 Certain Adjustments of Payments by Company. If Executive is liable for the payment of any excise tax (the "Basic Excise Tax") because of Code Section 4999, or any successor or similar provision, with respect to any payments or benefits received or to be received from the Company or any successor to the Company, whether provided under this Agreement or otherwise, the Company shall pay Executive an amount (the "Special Reimbursement") which, after payment by Executive (or on Executive's behalf) of any federal, state and local taxes applicable thereto, including, without limitation, any further excise tax under such Code Section 4999, on, with respect to or resulting from the Special Reimbursement, equals the net amount of the Basic Excise Tax. If any federal income taxes are imposed on any benefits provided to Executive, the Company shall "gross up" Executive for such tax liability by paying to Executive an amount sufficient so that after payment of all such taxes so imposed, Executive's position is what it would have been had no such taxes been imposed. Executive will cooperate with the Company to minimize the tax consequences to Executive and to the Company so long as the actions proposed to be taken by the Company do not cause any additional tax consequences to Executive and do not prolong or delay the time that payments are to be made, or the amount of payments to be made, unless Executive consents, in writing, to any delay or deferment of payment. Except as otherwise indicated in this Section 4.06, Executive shall be liable for and shall pay all income taxes owed by virtue of any payments made to Executive under this Agreement.

4.07 Indemnification. To the fullest extent permitted by law and Block's Bylaws, the Company hereby indemnifies during and after the period of Executive's employment hereunder Executive from and against all loss, costs, damages, and expenses including, without limitation, legal expenses of counsel selected by the Company to represent the interests of Executive (which expenses the Company will, to the extent so permitted, advance to executive as the same are incurred) arising out of or in connection with the fact that Executive is or was a director, officer, attorney, employee, or agent of the Company or Block or serving in such capacity for another

corporation at the request of the Company or Block. Notwithstanding the foregoing, the indemnification provided in this Section 4.07 will not apply to any loss, costs, damages, and expenses arising out of or relating in any way to any employment of Executive by any former employer or the termination of any such employment.

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

4.09 Notices. All notices required or desired to be given hereunder must be in writing and will be deemed served and delivered if delivered in person or mailed, postage prepaid to Executive at: 4950 Central, No. 103, Kansas City, MO 64112 and to H&R Block, Inc., One H&R Block Way, Kansas City, Missouri 64105, Attn: Corporate Secretary; or to such other address and/or person designated by either party in writing to the other party. Any notice given by mail will be deemed given as of the date it is so mailed and postmarked or received by a nationally recognized overnight courier for delivery.

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

4.11 Section 409A. Notwithstanding anything in this Agreement to the contrary, if any provision would result in the imposition of an applicable tax under Code Section 409A and related Treasury guidance ("Section 409A"), that provision will be reformed to avoid imposition of the applicable tax and no action taken to comply with Code Section 409A shall be taken without the Executive's consent if it will adversely affect the Executive's rights to any compensation or benefits hereunder .

4.12 Arbitration. The parties hereto may attempt to resolve any dispute hereunder informally via mediation or other means. Otherwise, any controversy or claim arising out of or relating to this Agreement, or any breach thereof, shall, except as provided in Article Three, be adjusted only by arbitration in accordance with the rules of the American Arbitration Association, and judgment upon such award rendered by the arbitrator may be entered in any court having jurisdiction thereof. The arbitration shall be held in Kansas City, Missouri, or such other place as may be agreed upon at the time by the parties to the arbitration. The arbitrator(s) shall, in their award, allocate between the parties the costs of arbitration, which shall include reasonable attorneys' fees of the parties, as well as the arbitrator's fees and expenses, in such proportions as the arbitrator deems just.

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

EXECUTIVE:

Dated: November 1, 2006

/s/ Carol Graebner
Carol Graebner

Accepted and Agreed:

HRB Management, Inc.
a Missouri Corporation

By: /s/ Mark A. Ersnst
Mark A. Ernst, President and Chief Executive Officer

Dated: November 1, 2006

Exhibit A

H&R BLOCK SEVERANCE PLAN
Amended and Restated August 11, 2003

1. **Purpose.** The H&R Block Severance Plan is a welfare benefit plan established by HRB Management, Inc., an indirect subsidiary of H&R Block, Inc., for the benefit of certain subsidiaries of H&R Block, Inc. in order to provide severance compensation and benefits to certain employees of such subsidiaries whose employment is involuntarily terminated under the conditions set forth herein. This document constitutes both the plan document and the summary plan description required by the Employee Retirement Income Security Act of 1974.

2. **Definitions.**

(a) "Cause" means one or more of the following grounds of an Employee's termination of employment with a Participating Employer:

(i) misconduct that interferes with or prejudices the proper conduct of the Company, the Employee's Participating Employer, or any other affiliate of the Company, or which may reasonably result in harm to the reputation of the Company, the Employee's Participating Employer, or any other affiliate of the Company;

(ii) commission of an act of dishonesty or breach of trust resulting or intending to result in material personal gain or enrichment of the Employee at the expense of the Company, the Employee's Participating Employer, or any other affiliate of the Company;

(iii) commission of an act materially and demonstrably detrimental to the good will of the Company, the Employee's Participating Employer, or any other affiliate of the Company, which act constitutes gross negligence or willful misconduct by the Employee in the performance of the Employee's material duties;

(iv) material violations of the policies or procedures of the Employee's Participating Employer, including, but not limited to, the H&R Block Code of Business Ethics & Conduct, except those policies or procedures with respect to which an exception has been granted under authority exercised or delegated by the Participating Employer;

(v) disobedience, insubordination or failure to discharge employment duties;

(vi) conviction of, or entrance of a plea of guilty or no contest, to a misdemeanor (involving an act of moral turpitude) or a felony;

(vii) inability of the Employee, the Company, the Employee's Participating Employer, and/or any other affiliate of the Company to participate, in whole or in part, in any activity subject to governmental regulation as the result of any action or inaction on the part of the Employee;

(viii) the Employee's death or total and permanent disability. The term "total and permanent disability" will have the meaning ascribed thereto under any long-term disability plan maintained by the Employee's Participating Employer;

(ix) any grounds described as a discharge or other similar term on the Participating Employer's separation review form or other similar document stating the reason for the Employee's termination of employment, including poor performance; or

(x) any other grounds of termination of employment that the Participating Employer deems for cause.

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

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

(c) "Employee" means a regular full-time or part-time, active employee of a Participating Employer whose employment with a Participating Employer is not subject to an employment contract that contains a provision that includes severance benefits. This definition expressly excludes employees of a Participating Employer classified as seasonal, temporary and/or inactive and employees who are customarily employed by a Participating Employer less than 20 hours per week.

(d) "ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

(e) "Hour of Service" means each hour for which an individual was entitled to compensation as a regular full-time or part-time employee from a subsidiary of the Company.

(f) "Line of Business of the Company" with respect to a Participant means any line of business of the Participating Employer by which the Participant was employed as of the Termination Date, as well as any one or more lines of business of any other subsidiary of the Company by which the Participant was employed during the two-year period preceding the Termination Date, provided that, if Participant's employment was, as of the Termination Date or during the two-year period

immediately prior to the Termination Date, with HRB Management, Inc. or any successor entity thereto, “Line of Business of the Company” shall mean any lines of business of the Company and all of its subsidiaries.

(g) “Monthly Salary” means –

(i) with respect to an Employee paid on a salary basis, the Employee’s current annual salary divided by 12; and

(ii) with respect to an Employee paid on an hourly basis, the Employee’s current hourly rate times the number of hours he or she is regularly scheduled to work per week multiplied by 52 and then divided by 12.

(h) “Participant” means an Employee who has incurred a Qualifying Termination and has signed a Release that has not been revoked during any revocation period provided under the Release.

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

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

(k) “Plan Administrator” and “Plan Sponsor” means HRB Management, Inc. The address and telephone number of HRB Management, Inc. is 4400 Main Street, Kansas City, Missouri 64111, (816) 753-6900. The Employer Identification Number assigned to HRB Management, Inc. by the Internal Revenue Service is 43-1632589.

(l) “Qualifying Termination” means the involuntary termination of an Employee, but does not include a termination resulting from:

(i) the elimination of the Employee’s position where the Employee was offered another position with a subsidiary of the Company at a comparable salary and benefit level, or where the termination results from a sale of assets or other corporate acquisition or disposition;

(ii) the redefinition of an Employee’s position to a lower salary rate or grade;

(iii) the termination of an Employee for Cause; or

(iv) the non-renewal of employment contracts.

(m) “Release” means that agreement signed by and between an Employee who is eligible to participate in the Plan and the Employee’s Participating Employer under which the Employee releases all known and potential claims against the Employee’s

Participating Employer and all of such employer's parents, subsidiaries, and affiliates.

(n) "Release Date" means, with respect to a Release that includes a revocation period, the date immediately following the expiration date of the revocation period in the Release that has been fully executed by both parties. "Release Date" means, with respect to a Release that does not include a revocation period, the date the Release has been fully executed by both parties.

(o) "Severance Period" means the period of time during which a Participant may receive benefits under this Plan. The Severance Period with respect to a Participant begins on the Termination Date. A Participant's Severance Period will be the shorter of (i) 12 months or (ii) a number of months equal to the whole number of Years of Service determined under Section 2(q), unless earlier terminated in accordance with Section 8 of the Plan.

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

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

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

Despite an Employee's Years of Service calculated in accordance with the above, an Employee whose pay grade at his or her Participating Employer fits in the following categories at the time of the Qualifying Termination will be credited with no less than the specified Minimum Years of Service and no more than the specified Maximum Years of Service listed in the following table as applicable to such pay grade:

Pay Grade	Minimum Years of Service	Maximum Years of Service
81-89 and 231-235	6	18
65-80, 140-145, 185-190, and 218-230	3	18
57-64, 115-135, 175-180, and 210-217	1	18
48-56, 100-110, 170, and 200-209	1	18

Notwithstanding the above, if an Employee has received credit for Years of Service

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

3. **Eligibility and Participation.**

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

4. **Severance Compensation.**

(a) Amount. Subject to Section 8, each Participant will receive during the Severance Period from the applicable Participating Employer aggregate severance compensation equal to:

(i) the Participant's Monthly Salary multiplied by the Participant's Years of Service; plus

(ii) one-twelfth of the Participant's target payout under the Short-Term Incentive Program of the Participating Employer in effect at the time of his or her Termination Date multiplied by the Participant's Years of Service; plus

(iii) an amount to be determined by the Participating Employer at its sole discretion, which amount may be zero.

(b) Timing of Payments. Except as stated in Section 4(c), and subject to Section 8,

(i) the sum of any amounts determined under Sections 4(a)(i) and 4(a)(ii) of the Plan will be paid in semi-monthly or bi-weekly installments (the timing and amount of each installment as determined by the Participating Employer) during the Severance Period beginning after the later of the Termination Date or the Release Date; and

(ii) any amounts determined under Section 4(a)(iii) of the Plan will be paid in one lump sum within 15 days after the later of the Termination Date or the Release Date, unless otherwise agreed in writing by the Participating Employer and Participant or otherwise required by law.

(c) Death. In the event of the Participant's death prior to receiving all payments

due under this Section 4, any unpaid severance compensation will be paid (i) in the same manner as are death benefits under the Participant's basic life insurance coverage provided by the Participant's Participating Employer, and (ii) in accordance with the Participant's beneficiary designation under such coverage. If no such coverage exists, or if no beneficiary designation exists under such coverage as of the date of death of the Participant, the severance compensation will be paid to the Participant's estate in one-lump sum.

5. Health and Welfare Benefits.

(a) Benefits. In addition to the severance compensation provided pursuant to Section 4 of the Plan, a Participant may continue to participate in the following health and welfare benefits provided by his or her Participating Employer during the Severance Period on the same basis as employees of the Participating Employer:

(i) medical;

(ii) dental;

(iii) vision;

(iv) employee assistance;

(v) medical expense reimbursement and dependent care expense reimbursement benefits provided under a cafeteria plan;

(vi) life insurance (basic and supplemental); and

(vii) accidental death and dismemberment insurance (basic and supplemental).

For the purposes of any of the above-described benefits provided under a Participating Employer's cafeteria plan, a Qualifying Termination constitutes a "change in status" or "life event."

(b) Payment and Expiration. Payment of the Participant's portion of contribution or premiums for such selected benefits will be withheld from any severance compensation payments paid to the Participant under this Plan. The Participating Employer's partial subsidization of such coverages will remain in effect until the earlier of:

(i) the expiration or earlier termination of the Employee's Severance Period, after which time the Participant may be eligible to elect to continue coverage of those benefits listed above that are provided under group health plans in accordance with his or her rights under Section 4980B of the Internal Revenue Code; or

(ii) the Participant's attainment of or eligibility to attain health and welfare benefits through another employer after which time the Participant may be eligible to elect to continue coverage of those benefits listed above that are provided under group health plans in accordance with his or her rights under Section 4980B of the Internal Revenue Code.

6. Stock Options.

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

(b) Post-Termination Exercise Period. Subject to the expiration dates and other terms of the applicable stock option agreements, the Participant may elect to have the right to exercise any outstanding incentive stock options and nonqualified stock options granted prior to the Termination Date to the Participant under the Company's 1984 Long-Term Executive Compensation Plan, its 1993 Long-Term Executive Compensation Plan, or any successor plan to its 1993 Long-Term Executive Compensation Plan that are vested as of the Termination Date (or, if later, the Release Date), whether due to the operation of Section 6(a), above, or otherwise, at any time during the Severance Period and, except in the event that the Severance Period terminates pursuant to Section 8(a), for a period up to 3 months after the end of the Severance Period (notwithstanding Section 8). Any such election shall apply to all outstanding incentive stock options and nonqualified stock options, will be irrevocable and must be made in writing and delivered to the Plan Administrator on or before the later of the Termination Date or Release Date. If the Participant fails to make an election, the Participant's right to exercise such options will expire 3 months after the Termination Date.

(c) Stock Option Agreement Amendment. The operation of Sections 6(a) and 6(b), above, are subject to the Participant's execution of an amendment to any affected stock option agreements, if necessary.

7. **Outplacement Services.** In addition to the benefits described above, career transition counseling or outplacement services may be provided upon the Participant's

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

8. Termination of Benefits. Any right of a Participant to severance compensation and benefits under the Plan, and all obligations of his or her Participating Employer to pay any unpaid severance compensation or provide benefits under the Plan will terminate as of the day:

(a) The Participant has engaged in any conduct described in Sections 8(a)(i), 8(a)(ii), 8(a)(iii) or 8(a)(iv), below, as the same may be limited pursuant to Section 8(a)(vi).

(i) During the Severance Period, the Participant's engagement in, ownership of, or control of any interest in (except as a passive investor in less than one percent of the outstanding securities of publicly held companies), or acting as an officer, director or employee of, or consultant, advisor or lender to, any firm, corporation, partnership, limited liability company, institution, business, government agency, or entity that engages in any line of business that is competitive with any Line of Business of the Company, *provided that* this Section 8(a)(i) shall not apply to the Participant if the Participant's primary place of employment by a subsidiary of the Company as of the Termination Date is in either the State of California or the State of North Dakota.

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

(iii) During the Severance Period, the Participant directly or indirectly solicits or enters into any arrangement with any person or entity which is, at the time of the solicitation, a significant customer of a subsidiary of the Company for the purpose of engaging in any business transaction of the nature performed by such subsidiary, or contemplated to be performed by such subsidiary, for such customer, *provided that* this Section 8(a)(iii)

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

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

(v) If the Participant engaged in any of the conduct described in Sections 8(a)(i), 8(a)(ii), 8(a)(iii) or 8(a)(iv) during or after Participant's term of employment with a Participating Employer, but prior to the commencement of the Severance Period, and such engagement becomes known to the Participating Employer during the Severance Period, such conduct shall be deemed, for purposes of Sections 8(a)(i), 8(a)(ii), 8(a)(iii) or 8(a)(iv) to have occurred during the Severance Period.

(vi) If the Participant is a party to an employment contract with a Participating Employer that contains a covenant or covenants relating to the Participant's engagement in conduct that is the same as or substantially similar to the conduct described in any of Sections 8(a)(i), 8(a)(ii), 8(a)(iii) or 8(a)(iv), and any specific conduct regulated in such covenant or covenants in such employment contract is more limited in scope geographically or otherwise than the corresponding specific conduct described in any of such Sections 8(a)(i), 8(a)(ii), 8(a)(iii) or 8(a)(iv), then the corresponding specific conduct addressed in the applicable Section 8(a)(i), 8(a)(ii), 8(a)(iii) or 8(a)(iv) shall be limited to the same extent as such conduct is limited in the employment contract and the Participating Employer's rights and remedy with respect to such conduct under this Section 8 shall apply only to such conduct as so limited.

(b) The Participant is rehired by his or her Participating Employer or hired by any other subsidiary of the Company in any position other than a position classified as seasonal by such employer.

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

10. **Administration of Plan.** The Plan Administrator has the power and discretion to

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

11. **Claims Procedures.**

(a) **Filing a Claim for Benefits.** Participants are not required to submit claim forms to initiate payment of benefits under this Plan. To make a claim for benefits, individuals other than Participants who believe they are entitled to receive benefits under this Plan and Participants who believe they have been denied certain benefits under the Plan must write to the Plan Administrator. These individuals and such Participants are hereinafter referred to in this Section 11 as "Claimants." Claimants must notify the Plan Administrator if they will be represented by a duly authorized representative with respect to a claim under the Plan.

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

(i) the specific reason for the denial;

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

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

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

described herein.

(c) **Appeal of Denied Claim and Final Decision.** If the Claimant should appeal to the Plan Administrator, the Claimant, or his or her duly authorized representative, must submit, in writing, whatever issues and comments the Claimant or his or her duly authorized representative feels are pertinent. The Claimant, or his or her duly authorized representative, may review and request pertinent Plan documents. The Plan Administrator will reexamine all facts related to the appeal and make a final determination as to whether the denial of benefits is justified under the circumstances. The Plan Administrator will advise the Claimant in writing of its decision within 60 days of the Claimant's written request for review, unless special circumstances (such as a hearing) require an extension of time, in which case the Plan Administrator will make a decision as soon as possible, but no later than 120 days after its receipt of a request for review.

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

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

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

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

16. **Withholding of Taxes.** The applicable Participating Employer may withhold from any benefit payable under the Plan all federal, state, city or other taxes as may be required pursuant to any law, governmental regulation or ruling. The Participant shall pay upon demand by the Company or the Participating Employer any taxes required to be withheld or collected by the Company or the Participating Employer upon the exercise by the Participant of a nonqualified stock option granted under the Company's 1984 Long-Term Executive Compensation Plan or its 1993 Long-Term Executive Compensation Plan. If the Participant fails to pay any such taxes associated with such exercise upon demand, the Participating Employer shall have the right, but not the obligation, to offset such taxes against any unpaid severance compensation under this Plan.

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

(or impose any obligations) for the continued performance of duties by the Employee for the Participating Employer or any other subsidiary of the Company.

18. **No Assignment.** The Employee's right to receive payments of severance compensation and benefits under the Plan are not assignable or transferable, whether by pledge, creation of a security interest, or otherwise. In the event of any attempted assignment or transfer contrary to this Section 18, the applicable Participating Employer will have no liability to pay any amount so attempted to be assigned or transferred.

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

HRB Management, Inc.
Attn: Secretary
4400 Main Street
Kansas City, Missouri 64111

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

(a) examine without charge, at the Plan Administrator's office, all documents governing the Plan and a copy of the latest annual report (Form 5500 Series) filed by the Plan with the U.S. Department of Labor and available at the Public Disclosure Room of the Pension and Welfare Benefit Administration;

(b) obtain, upon written request to the Plan Administrator, copies of documents governing the operation of the Plan, copies of the latest annual report (Form 5500 Series) and an updated summary plan description. The Plan Administrator may make a reasonable charge for the copies; and

(c) receive a summary of the Plan's annual financial report if required to be filed for the year. The Plan Administrator is required by law to furnish each participant with a copy of this summary annual report if an annual report is required to be filed for the year.

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

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

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

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

IN WITNESS WHEREOF, HRB Management, Inc. adopts this Severance Plan, as amended and restated, effective this 11th day of August, 2003.

HRB MANAGEMENT, INC.

/s/ Mark A, Ernst
Mark A. Ernst
President and Chief Executive Officer

Schedule A

Participating Employers

Block Financial Corporation

Financial Marketing Services, Inc.

Franchise Partner, Inc.

H&R Block Investments, Inc.

H&R Block Services, Inc. and its U.S.-based direct and indirect subsidiaries

HRB Business Services, Inc.

H&R Block Small Business Resources, Inc.

HRB Management, Inc.

HRB Retail Services, Inc.

OLDE Financial Corporation and its U.S.-based direct and indirect subsidiaries, which subsidiaries include H&R Block Financial Advisors, Inc.

Exhibit 10.39

Execution Copy

BRIDGE CREDIT AND GUARANTEE AGREEMENT

dated as of

April 16, 2007

among

BLOCK FINANCIAL CORPORATION,
as Borrower,

H&R BLOCK, INC.,
as Guarantor,

The Lenders Party Hereto,

HSBC BANK USA, NATIONAL ASSOCIATION,
as Administrative Agent,

and

HSBC BANK USA, NATIONAL ASSOCIATION,
as Lead Arranger and Sole Bookrunner

$500,000,000 BRIDGE FACILITY

TABLE OF CONTENTS

BRIDGE CREDIT AND GUARANTEE AGREEMENT, dated as of April 16, 2007, among BLOCK FINANCIAL CORPORATION, a Delaware corporation, as Borrower, H&R BLOCK, INC., a Missouri corporation, as Guarantor, the LENDERS party hereto, and HSBC BANK USA, NATIONAL ASSOCIATION, a national association, as Administrative Agent.

WHEREAS, the Borrower has requested that the Lenders provide a bridge facility in an amount of $500,000,000;

NOW, THEREFORE, in consideration of the agreements herein and in reliance upon the representations and warranties set forth herein, the parties agree as follows:

ARTICLE I

DEFINITIONS

SECTION 1.1. Defined Terms. As used in this Agreement, the following terms have the meanings specified below:

"Administrative Agent" means HSBC Bank USA, National Association, a national association, in its capacity as administrative agent for the Lenders hereunder.

"Administrative Questionnaire" means an Administrative Questionnaire in a form supplied by the Administrative Agent.

"Affiliate" means, with respect to a specified Person, another Person that directly, or indirectly through one or more intermediaries, Controls or is Controlled by or is under common Control with the Person specified. For the avoidance of doubt, neither the Guarantor nor any of its Subsidiaries shall be deemed to Control any of its franchisees by virtue of provisions in the relevant franchise agreement regulating the business and operations of such franchisee.

"Agreement" means this Bridge Credit and Guarantee Agreement.

"Applicable Percentage" means, with respect to any Lender, the percentage of the total Loans represented by such Lender's Loan.

"Applicable Rate" means, for any day, the rate per annum based on the Ratings in effect on such day, as set forth in the table below:

Category	Ratings	Applicable Rate
I	Higher than: BBB+ by S&P or Baa1 by Moody's	0.350%
II	BBB+ by S&P or Baa1 by Moody's	0.450%
III	BBB by S&P or Baa2 by Moody's	0.600%
IV	Lower than: BBB by S&P or Baa2 by Moody's	0.750%

; provided that (a) if on any day the Ratings of S&P and Moody's do not fall in the same category, then the higher of such Ratings shall be applicable for such day, unless one of the two ratings is two or more Ratings levels lower than the other, in which case the applicable rate shall be determined by reference to the Ratings level next below that of the higher of the two ratings, (b) if on any day the Rating of only S&P or Moody's is available, then such Rating shall be applicable for such day and (c) if on any day a Rating is not available from both S&P and Moody's, then the Ratings in category IV above shall be applicable for such day. Any change in the Applicable Rate resulting from a change in Rating by either S&P or Moody's shall become effective on the date such change is publicly announced by such rating agency.

"Assignment and Acceptance" means an assignment and acceptance entered into by a Lender and an assignee (with the consent of any party whose consent is required by Section 10.4), and accepted by the Administrative Agent, substantially in the form of Exhibit A or any other form approved by the Administrative Agent.

"Board" means the Board of Governors of the Federal Reserve System of the United States of America.

"Borrower" means Block Financial Corporation, a Delaware corporation and a wholly-owned indirect Subsidiary of the Guarantor

"Borrowing" means the Loans made on the Closing Date.

"Borrowing Request" means the request by the Borrower for the Borrowing in accordance with Section 2.3.

"Business Day" means any day that is not a Saturday, Sunday or other day on which commercial banks in New York City are authorized or required by law to remain closed; provided that the term "Business Day" shall also exclude any day on which banks are not open for dealings in dollar deposits in the London interbank market.

"Capital Lease Obligations" of any Person means the obligations of such Person to pay rent or other amounts under any lease of (or other arrangement conveying the right to use) real or personal property, or a combination thereof, which obligations are required to be classified and accounted for as capital leases on a balance sheet of such Person under GAAP, and the amount of such obligations shall be the capitalized amount thereof determined in accordance with GAAP.

"Capital Stock" means any and all shares, interests, participations or other equivalents (however designated) of capital stock of a corporation, any and all equivalent ownership interests in a Person (other than a corporation) and any and all warrants or options to purchase any of the foregoing.

"Change in Control" means (a) the acquisition of ownership, directly or indirectly, beneficially or of record, by any Person or group (within the meaning of the Securities Exchange Act of 1934, as amended, and the rules of the Securities and Exchange Commission thereunder as in effect on the date hereof) of shares representing more than 25% of the aggregate ordinary voting power represented by the issued and outstanding Capital Stock of the Guarantor; (b) occupation of a majority of the seats (other than vacant seats) on the board of directors of the Guarantor by Persons who were neither (i) nominated by the board of directors of the Guarantor nor (ii) appointed by directors so nominated; (c) the acquisition of direct or indirect Control of the Guarantor by any Person or group; or (d) the failure of the Guarantor to own, directly or indirectly, shares representing 100% of the aggregate ordinary voting power represented by the issued and outstanding Capital Stock of the Borrower.

"Change in Law" means (a) the adoption of any law, rule or regulation after the date of this Agreement, (b) any change in any law, rule or regulation or in the interpretation or application thereof by any Governmental Authority after the date of this Agreement or (c) compliance by any Lender (or, for purposes of Section 2.13(b), by any lending office of such Lender or by such Lender's holding company, if any) with any request, guideline or directive (whether or not having the force of law) of any Governmental Authority made or issued after the date of this Agreement.

"Charges" has the meaning assigned to such term in Section 10.13.

"Closing Date" means the date on which the conditions specified in Article IV are satisfied (or waived in accordance with Section 10.2).

"Code" means the Internal Revenue Code of 1986, as amended from time to time.

"Commitment" means, with respect to each Lender, the commitment of such Lender to make a Loan hereunder to the Borrower on the Closing Date. The initial amount of each Lender's Commitment is set forth on Schedule 2.1 under the heading "Commitment".

"Control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ability to exercise voting power, by contract or otherwise. "Controlling" and "Controlled" have meanings correlative thereto.

"Credit Parties" means the collective reference to the Borrower and the Guarantor.

"Default" means any event or condition which constitutes an Event of Default or which upon notice, lapse of time or both would, unless cured or waived, become an Event of Default.

"Disclosed Matters" means (a) matters disclosed in the Borrower's public filings with the Securities and Exchange Commission prior to April 15,2007 and (b) the actions, suits, proceedings and environmental matters disclosed in Schedule 3.6.

"dollars" or "$" refers to lawful money of the United States of America.

"Environmental Laws" means all laws, rules, regulations, codes, ordinances, orders, decrees, judgments, injunctions, notices or binding agreements issued, promulgated or entered into by any Governmental Authority, relating in any way to the environment, preservation or reclamation of natural resources, to the management, release or threatened release of any Hazardous Material or to health and safety matters.

"Environmental Liability" means any liability, contingent or otherwise (including any liability for damages, costs of environmental remediation, fines, penalties or indemnities), of any Credit Party or any Subsidiary directly or indirectly resulting from or based upon (a) violation of any Environmental Law, (b) the generation, use, handling, transportation, storage, treatment or disposal of any Hazardous Materials, (c) exposure to any Hazardous Materials, (d) the release or threatened release of any Hazardous Materials into the environment or (e) any contract, agreement or other consensual arrangement pursuant to which liability is assumed or imposed with respect to any of the foregoing.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time.

"ERISA Affiliate" means any trade or business (whether or not incorporated) that, together with any Credit Party, is treated as a single employer under Section 414(b) or (c) of the Code or, solely for purposes of Section 302 of ERISA and Section 412 of the Code, is treated as a single employer under Section 414 of the Code.

"ERISA Event" means (a) any "reportable event", as defined in Section 4043 of ERISA or the regulations issued thereunder with respect to a Plan (other than an event for which the 30-day notice period is waived); (b) the existence with respect to any Plan of an "accumulated funding deficiency" (as defined in Section 412 of the Code or Section 302 of ERISA), whether or not waived; (c) the filing pursuant to Section 412(d) of the Code or Section 303(d) of ERISA of an application for a waiver of the minimum funding standard with respect to any Plan; (d) the incurrence by any Credit Party or any of their ERISA Affiliates of any liability under Title IV of ERISA with respect to the termination of any Plan; (e) the receipt by any Credit Party or any ERISA Affiliate from the PBGC or a plan administrator of any notice relating to an intention to terminate any Plan or Plans or to appoint a trustee to administer any Plan; (f) the incurrence by any Credit Party or any of their ERISA Affiliates of any liability with respect to the withdrawal or partial withdrawal from any Plan or Multiemployer Plan; or (g) the receipt by any Credit Party or any ERISA Affiliate of any notice, or the receipt by any Multiemployer Plan from any Credit Party or any ERISA Affiliate of any notice, concerning the imposition of Withdrawal Liability or a determination that a Multiemployer Plan is, or is expected to be, insolvent or in reorganization, within the meaning of Title IV of ERISA.

"Events of Default" has the meaning assigned to such term in Article VIII.

"Excluded Taxes" means, with respect to the Administrative Agent, any Lender or any other recipient of any payment to be made by or on account of any obligation of the Borrower hereunder, (a) income or franchise taxes imposed on (or measured by) its net income by the

United States of America, or by the jurisdiction under the laws of which such recipient is organized or in which its principal office is located or, in the case of any Lender, in which its applicable lending office is located, (b) any branch profits taxes imposed by the United States of America or any similar tax imposed by any other jurisdiction in which the Borrower is located and (c) in the case of a Foreign Lender (other than an assignee pursuant to a request by the Borrower under Section 2.17(b)), any withholding tax that is imposed on amounts payable to such Foreign Lender at the time such Foreign Lender becomes a party to this Agreement or is attributable to such Foreign Lender's failure or inability to comply with Section 2.15(e), except to the extent that such Foreign Lender's assignor (if any) was entitled, at the time of assignment, to receive additional amounts from the Borrower with respect to such withholding tax pursuant to Section 2.15(a).

"Existing Revolving Credit Agreement" means the Five-Year Credit and Guarantee Agreement, dated as of August 10, 2005, among the Borrower, the Guarantor, the lenders parties thereto, and JPMorgan Chase Bank, N.A., as Administrative Agent.

"Federal Funds Effective Rate" means, with respect to any amount, the rate per annum which is the average of the rates on the offered side of the Federal funds market quoted by three interbank Federal funds brokers, selected by the Administrative Agent, at approximately 2:00 p.m., New York City time, on such day for dollar deposits in immediately available funds, in an amount comparable to such amount, as determined by the Administrative Agent and rounded upwards, if necessary, to the nearest 1/100 of 1%.

"Financial Officer" means the chief financial officer, principal accounting officer, treasurer or controller of the Borrower or the Guarantor, as the context may require.

"Foreign Lender" means any Lender that is organized under the laws of a jurisdiction other than that in which the Borrower is located. For purposes of this definition, the United States of America, each State thereof and the District of Columbia shall be deemed to constitute a single jurisdiction.

"GAAP" means generally accepted accounting principles in the United States of America.

"Governmental Authority" means the government of the United States of America, any other nation or any political subdivision thereof, whether state, provincial or local, and any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government.

"Guarantee" of or by any Person (the "guarantor") means any obligation, contingent or otherwise, of the guarantor guaranteeing or having the economic effect of guaranteeing any Indebtedness or other obligation of any other Person (the "primary obligor") in any manner, whether directly or indirectly, and including any obligation of the guarantor, direct or indirect, (a) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation or to purchase (or to advance or supply funds for the purchase of) any security for the payment thereof, (b) to purchase or lease property, securities or services for the purpose of assuring the owner of such Indebtedness or other obligation of the payment thereof, (c) to maintain working capital, equity capital or any other financial statement condition or liquidity of the primary obligor so as to enable the primary obligor to pay such Indebtedness or other obligation or (d) as an account party in respect of any letter of credit or letter of guaranty

issued to support such Indebtedness or obligation; provided that the term Guarantee shall not include endorsements for collection or deposit in the ordinary course of business.

"Guarantee Obligation" means, as to any Person, any obligation of such Person guaranteeing or in effect guaranteeing any Indebtedness, leases, dividends or other obligations (the "primary obligations") of any other Person (the "primary obligor") in any manner, whether directly or indirectly, including any obligation of such Person, whether or not contingent, (a) to purchase any such primary obligation or any property constituting direct or indirect security therefor, (b) to advance or supply funds (i) for the purchase or payment of any such primary obligation or (ii) to maintain working capital or equity capital of the primary obligor or otherwise to maintain the net worth or solvency of the primary obligor, (c) to purchase property, securities or services primarily for the purpose of assuring the owner of any such primary obligation of the ability of the primary obligor to make payment of such primary obligation or (d) otherwise to assure or hold harmless the owner of any such primary obligation against loss in respect thereof; provided, however, that the term Guarantee Obligation shall not include endorsements of instruments for deposit or collection in the ordinary course of business. The amount of any Guarantee Obligation shall be deemed to be an amount equal as of any date of determination to the stated determinable amount of the primary obligation in respect of which such Guarantee Obligation is made (unless such Guarantee Obligation shall be expressly limited to a lesser amount, in which case such lesser amount shall apply) or, if not stated or determinable, the amount as of any date of determination of the maximum reasonably anticipated liability in respect thereof as determined by such Person in good faith.

"Guarantor" means H&R Block, Inc., a Missouri corporation.

"Hazardous Materials" means all explosive or radioactive substances or wastes and all hazardous or toxic substances, wastes or other pollutants, including petroleum or petroleum distillates, asbestos or asbestos containing materials, polychlorinated biphenyls, radon gas, infectious or medical wastes and all other substances or wastes of any nature regulated pursuant to any Environmental Law.

"Hedging Agreement" means any interest rate protection agreement, foreign currency exchange agreement, commodity price protection agreement or other interest or currency exchange rate or commodity price hedging arrangement.

"Indebtedness" of any Person means, without duplication, (a) all obligations of such Person for borrowed money or with respect to deposits or advances of any kind, (b) all obligations of such Person evidenced by bonds, debentures, notes or similar instruments, (c) all obligations of such Person upon which interest charges are customarily paid, (d) all obligations of such Person under conditional sale or other title retention agreements relating to property acquired by such Person, (e) all obligations of such Person in respect of the deferred purchase price of property or services (excluding current accounts payable and accrued expenses incurred in the ordinary course of business), (f) all Indebtedness of others secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien on property owned or acquired by such Person, whether or not the Indebtedness secured thereby has been assumed, (g) all Guarantees by such Person of Indebtedness of others, (h) all Capital Lease Obligations of such Person, (i) all obligations, contingent or otherwise, of such Person as an account party in respect of letters of credit and letters of guaranty and (j) all obligations, contingent or otherwise, of such Person in respect of bankers' acceptances. The Indebtedness of any Person shall include the Indebtedness of any other entity (including any partnership in which such Person is a general partner) to the extent such Person is liable therefor

as a result of such Person's ownership interest in or other relationship with such entity, except to the extent the terms of such Indebtedness provide that such Person is not liable therefor. Indebtedness of a Person shall not include obligations with respect to funds held by such Person in custody for, or for the benefit of, third parties which are to be paid at the direction of such third parties (and are not used for any other purpose).

"Indemnified Taxes" means Taxes other than Excluded Taxes.

"Indemnitee" has the meaning assigned to such term in Section 10.3(b).

"Information" has the meaning assigned to such term in Section 10.12.

"Interest Election Request" means a request by the Borrower to continue the Borrowing in accordance with Section 2.6.

"Interest Payment Date" means, with respect to any Loan, the last day of each Interest Period applicable thereto and, in the case of an Interest Period of more than three months' duration, each day prior to the last day of such Interest Period that occurs at intervals of three months' duration after the first day of such Interest Period.

"Interest Period" means, with respect to the Borrowing, the period commencing on the date of the Borrowing and ending on the numerically corresponding day in the calendar month that is one, two, three or six months thereafter, as the Borrower may elect; provided that (a) if any Interest Period would end on a day other than a Business Day, such Interest Period shall be extended to the next succeeding Business Day unless such next succeeding Business Day would fall in the next calendar month, in which case such Interest Period shall end on the next preceding Business Day, (b) any Interest Period that commences on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the last calendar month of such Interest Period) shall end on the last Business Day of the last calendar month of such Interest Period and (c) no Interest Period may end beyond the Maturity Date. For purposes hereof, the date of the Borrowing initially shall be the date on which the Borrowing is made and thereafter shall be the effective date of the most recent continuation of the Borrowing.

"Lenders" means the Persons listed on Schedule 2.1 and any other Person that shall have become a party hereto pursuant to an Assignment and Acceptance, other than any such Person that ceases to be a party hereto pursuant to an Assignment and Acceptance.

"LIBOR Rate" means, with respect to any Interest Period, the rate appearing on Reuters Screen LIBOR01 Page at approximately 11:00 a.m., London time, two Business Days prior to the commencement of such Interest Period, as the rate for dollar deposits with a maturity comparable to such Interest Period. In the event that such rate is not available at such time for any reason, then the "LIBOR Rate" with respect to such Interest Period shall be determined by reference to such other comparable publicly available service for displaying eurodollar rates as may be selected by the Administrative Agent or, in the absence of such availability, by reference to the rate at which dollar deposits of $5,000,000 and for a maturity comparable to such Interest Period are offered by the principal London office of the Administrative Agent in immediately available funds in the London interbank market at approximately 11:00 a.m., London time, two Business Days prior to the commencement of such Interest Period.

"Lien" means, with respect to any asset, (a) any mortgage, deed of trust, lien, pledge, hypothecation, encumbrance, charge or security interest in, on or of such asset, (b) the interest of

a vendor or a lessor under any conditional sale agreement, capital lease or title retention agreement (or any financing lease having substantially the same economic effect as any of the foregoing) relating to such asset and (c) in the case of securities, any purchase option, call or similar right of a third party with respect to such securities; provided that clause (c) above shall be deemed not to include stock options granted by any Person to its directors, officers or employees with respect to the Capital Stock of such Person.

"Loan Documents" means this Agreement and the Notes, if any.

"Loans" has the meaning assigned to such term in Section 2.1.

"Material Adverse Effect" means a material adverse effect on (a) the business, assets, property or condition (financial or otherwise) of the Guarantor and the Subsidiaries taken as a whole, (b) the ability of any Credit Party to perform any of its obligations under this Agreement or (c) the rights of or benefits available to the Lenders under this Agreement.

"Material Indebtedness" means Indebtedness (other than the Loans), or obligations in respect of one or more Hedging Agreements, of any one or more of the Credit Parties and any Subsidiaries in an aggregate principal amount exceeding $40,000,000. For purposes of determining Material Indebtedness, the "principal amount" of the obligations of any Credit Party or any Subsidiary in respect of any Hedging Agreement at any time shall be the aggregate amount (giving effect to any netting agreements) that the Credit Party or such Subsidiary would be required to pay if such Hedging Agreement were terminated at such time.

"Material Subsidiary" means any Subsidiary of any Credit Party, other than OOMC, the aggregate assets or revenues of which, as of the last day of the most recently ended fiscal quarter for which the Borrower has delivered financial statements, when aggregated with the assets or revenues of all other Subsidiaries with respect to which the actions contemplated by Section 6.4 of the Existing Revolving Credit Agreement are taken, are greater than 5% of the total assets or total revenues, as applicable, of the Guarantor and its consolidated Subsidiaries, in each case as determined in accordance with GAAP.

"Maturity Date" means December 20, 2007.

"Maximum Rate" has the meaning assigned to such term in Section 10.13.

"Moody's" means Moody's Investors Service, Inc.

"Multiemployer Plan" means a multiemployer plan as defined in Section 4001(a)(3) of ERISA.

"Net Cash Proceeds" means, in connection with any issuance of Indebtedness, the cash proceeds received from such issuance, net of attorneys' fees, investment banking fees, accountants' fees, underwriting discounts and commissions and other customary fees and expenses actually incurred in connection therewith.

"Notes" means the collective reference to any promissory note evidencing Loans.

"Obligations" means, collectively, the unpaid principal of and interest on the Loans and all other obligations and liabilities of the Borrower (including interest accruing at the then applicable rate provided herein after the maturity of the Loans and interest accruing at the then

applicable rate provided herein after the filing of any petition in bankruptcy, or the commencement of any insolvency, reorganization or like proceeding, relating to the Borrower, whether or not a claim for post-filing or post-petition interest is allowed in such proceeding) to the Administrative Agent or any Lender, whether direct or indirect, absolute or contingent, due or to become due, or now existing or hereafter incurred, which may arise under, out of, or in connection with, this Agreement or any other document made, delivered or given in connection herewith, whether on account of principal, interest, reimbursement obligations, fees, indemnities, costs, expenses or otherwise (including all fees and disbursements of counsel to the Administrative Agent or to the Lenders that are required to be paid by the Borrower pursuant to the terms of any of the foregoing agreements).

"OOMC" means Option One Mortgage Corporation, a California corporation.

"Other Taxes" means any and all present or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies arising from any payment made hereunder or from the execution, delivery or enforcement of, or otherwise with respect to, this Agreement.

"Participant" has the meaning assigned to such term in Section 10.4(e).

"PBGC" means the Pension Benefit Guaranty Corporation referred to and defined in ERISA and any successor entity performing similar functions.

"Person" means any natural person, corporation, limited liability company, trust, joint venture, association, company, partnership, Governmental Authority or other entity.

"Plan" means any employee pension benefit plan (other than a Multiemployer Plan) subject to the provisions of Title IV of ERISA or Section 412 of the Code or Section 302 of ERISA, and in respect of which any Credit Party or any ERISA Affiliate is (or, if such plan were terminated, would under Section 4069 of ERISA be deemed to be) an "employer" as defined in Section 3(5) of ERISA.

"Rating" means the rating of S&P or Moody's, as the case may be, applicable to the long-term senior unsecured non-credit enhanced debt of the Borrower, as announced by S&P or Moody's, as the case may be, from time to time.

"Register" has the meaning assigned to such term in Section 10.4(c).

"Related Parties" means, with respect to any specified Person, such Person's Affiliates and the respective directors, officers, employees, agents and advisors of such Person and such Person's Affiliates.

"Required Lenders" means, at any time, Lenders holding more than 50% of the aggregate unpaid principal amount of the Loans then outstanding.

"S&P" means Standard & Poor's Ratings Services.

"Subsidiary" means, with respect to any Person (the "parent") at any date, any corporation, limited liability company, partnership, association or other entity the accounts of which would be consolidated with those of the parent in the parent's consolidated financial statements if such financial statements were prepared in accordance with GAAP as of such date,

as well as any other corporation, limited liability company, partnership, association or other entity (a) of which securities or other ownership interests representing more than 50% of the equity or more than 50% of the ordinary voting power or, in the case of a partnership, more than 50% of the general partnership interests are, as of such date, owned, controlled or held, or (b) that is, as of such date, otherwise Controlled, by the parent or one or more Subsidiaries of the parent or by the parent and one or more Subsidiaries of the parent. Notwithstanding the foregoing, no entity shall be considered a "Subsidiary" solely as a result of the effect and application of FASB Interpretation No. 46R (Consolidation of Variable Interest Entities). Unless the context shall otherwise require, all references to a "Subsidiary" or to "Subsidiaries" in this Agreement shall refer to a Subsidiary or Subsidiaries of the Guarantor, including the Borrower and the Subsidiaries of the Borrower.

"Taxes" means any and all present or future taxes, levies, imposts, duties, deductions, charges or withholdings imposed by any Governmental Authority.

"Transactions" means the execution, delivery and performance by the Credit Parties of this Agreement, the borrowing of Loans and the use of the proceeds thereof.

"Withdrawal Liability" means liability to a Multiemployer Plan as a result of a complete or partial withdrawal from such Multiemployer Plan, as such terms are defined in Part I of Subtitle E of Title IV of ERISA.

SECTION 1.2. Terms Generally. The definitions of terms herein shall apply equally to the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words "include", "includes" and "including" shall be deemed to be followed by the phrase "without limitation". The word "will" shall be construed to have the same meaning and effect as the word "shall". Unless the context requires otherwise (a) any definition of or reference to any agreement, instrument or other document herein shall be construed as referring to such agreement, instrument or other document as from time to tune amended, supplemented or otherwise modified (subject to any restrictions on such amendments, supplements or modifications set forth herein), (b) any reference herein to any Person shall be construed to include such Person's successors and assigns, (c) the words "herein", "hereof" and "hereunder", and words of similar import, shall be construed to refer to this Agreement in its entirety and not to any particular provision hereof, (d) all references herein to Articles, Sections, Exhibits and Schedules shall be construed to refer to Articles and Sections of, and Exhibits and Schedules to, this Agreement and (e) the words "asset" and "property" shall be construed to have the same meaning and effect and to refer to any and all tangible and intangible assets and properties, including cash, securities, accounts and contract rights.

SECTION 1.3. [RESERVED].

SECTION 1.4. Accounting Terms; GAAP. Except as otherwise expressly provided herein, all terms of an accounting or financial nature shall be construed in accordance with GAAP, as in effect from time to time; provided that, if the Borrower notifies the Administrative Agent that the Borrower requests an amendment to any provision hereof to eliminate the effect of any change occurring after the date hereof in GAAP or in the application thereof on the operation of such provision (or if the Administrative Agent notifies the Borrower that the Required Lenders request an amendment to any provision hereof for such purpose), regardless of whether any such notice is given before or after such change in GAAP or in the application thereof, then such provision shall be interpreted on the basis of GAAP as in effect and applied immediately before such change shall have become effective until such notice shall have been withdrawn or such provision amended in accordance herewith.

ARTICLE II

THE CREDITS

SECTION 2.1. Commitments. Subject to the terms and conditions set forth herein, each Lender severally agrees to make a loan (a "Loan") to the Borrower on the Closing Date in an aggregate principal amount not to exceed such Lender's Commitment.

SECTION 2.2. [RESERVED].

SECTION 2.3. Request for Borrowing. To request the Borrowing, the Borrower shall deliver to the Administrative Agent a written Borrowing Request in a form approved by the Administrative Agent and signed by the Borrower. Such written Borrowing Request shall specify the following information:

(i) the aggregate amount of the Borrowing;

(ii) the date of the Borrowing, which shall be a Business Day;

(iii) the initial Interest Period to be applicable thereto, which shall be a period contemplated by the definition of the term "Interest Period"; and

(iv) the location and number of the Borrower's account to which funds are to be disbursed, which shall comply with the requirements of Section 2.5(a).

If no Interest Period is specified, then the Borrower shall be deemed to have selected an Interest Period of one month's duration. Promptly following receipt of the Borrowing Request in accordance with this Section, the Administrative Agent shall advise each Lender of the details thereof and of the amount of such Lender's Loan to be made as part of the Borrowing.

SECTION 2.4. [RESERVED].

SECTION 2.5. Funding of Borrowing. (a) Each Lender shall make the Loan to be made by it hereunder on the Closing Date by wire transfer of immediately available funds by 12:00 noon, New York City time, to the account of the Administrative Agent designated by it for such purpose by notice to the Lenders. The Administrative Agent will make such Loans available to the Borrower by wire transfer of the amounts so received, in like funds, to an account specified by the Borrower by 5:00 p.m., New York City time (to the extent funds in respect thereof are received by the Administrative Agent reasonably prior to such time), on the Closing Date.

(b) Unless the Administrative Agent shall have received notice from a Lender prior to the proposed time of funding on the Closing Date that such Lender will not make available to the Administrative Agent such Lender's share of the Borrowing, the Administrative Agent may assume that such Lender has made such share available on the Closing Date in accordance with paragraph (a) of this Section and may, in reliance upon such assumption, make available to the Borrower a corresponding amount. In such event, if a Lender has not in fact made its share of the Borrowing available to the Administrative Agent, then the applicable Lender and the Borrower severally agree to pay to the Administrative Agent forthwith on demand such corresponding amount with interest thereon, for each day from and including the Closing Date to but excluding the date of payment to the Administrative Agent, at (i) in the case of such Lender, the Federal Funds Effective Rate or (ii) in the case of the Borrower, the

interest rate then applicable to the Loans. If such Lender pays such amount to the Administrative Agent, then such amount shall constitute such Lender's Loan included in the Borrowing.

SECTION 2.6. Interest Elections. (a) The Borrowing shall have an initial Interest Period as specified in the Borrowing Request or determined pursuant to the penultimate sentence of Section 2.3. Thereafter, the Borrowing shall be continued, and the Borrower may elect Interest Periods therefor, all as provided in this Section.

(b) To make an election pursuant to this Section, the Borrower shall notify the Administrative Agent of such election by telephone by not later than 11:00 a.m., New York City time, three Business Days before the proposed effective date of such election. Each such telephonic Interest Election Request shall be irrevocable and shall be confirmed promptly by hand delivery or telecopy to the Administrative Agent of a written Interest Election Request in a form approved by the Administrative Agent and signed by the Borrower.

(c) Each telephonic and written Interest Election Request shall specify the following information:

(i) the effective date of the election made pursuant to such Interest Election Request, which shall be a Business Day; and

(ii) the Interest Period to be applicable thereto after giving effect to such election, which shall be a period contemplated by the definition of the term "Interest Period".

If any such Interest Election Request does not specify an Interest Period, then the Borrower shall be deemed to have selected an Interest Period of one month's duration.

(d) Promptly following receipt of an Interest Election Request, the Administrative Agent shall advise each Lender of the details thereof.

(e) If the Borrower fails to deliver a timely Interest Election Request prior to the end of an Interest Period, then, unless the Borrowing is repaid as provided herein, at the end of such Interest Period the Borrowing shall be continued with an Interest Period of one month's duration.

SECTION 2.7. [RESERVED].

SECTION 2.8. Repayment of Loans: Evidence of Debt. (a) The Borrower hereby unconditionally promises to pay to the Administrative Agent for the account of each Lender the then unpaid principal amount of the Loan made by such Lender on the Maturity Date.

(b) Each Lender shall maintain in accordance with its usual practice an account or accounts evidencing the indebtedness of the Borrower to such Lender resulting from the Loan made by such Lender, including the amounts of principal and interest payable and paid to such Lender from time to time hereunder.

(c) The Administrative Agent shall maintain accounts in which it shall record (i) the amount of each Loan made hereunder and each Interest Period applicable thereto, (ii) the amount of any principal or interest due and payable or to become due and payable from the Borrower to each Lender hereunder and (iii) the amount of any sum received by the Administrative Agent hereunder for the account of the Lenders and each Lender's share thereof.

(d) The entries made in the accounts maintained pursuant to paragraph (b) or (c) of this Section shall be prima facie evidence of the existence and amounts of the obligations recorded therein; provided that the failure of any Lender or the Administrative Agent to maintain such accounts or any error therein shall not in any manner affect the obligation of the Borrower to repay the Loans in accordance with the terms of this Agreement.

(e) Any Lender may request that the Loan made by it be evidenced by a promissory note. In such event, the Borrower shall prepare, execute and deliver to such Lender a promissory note payable to the order of such Lender (or, if requested by such Lender, to such Lender and its registered assigns) and in a form approved by the Administrative Agent. Thereafter, the Loan evidenced by such promissory note and interest thereon shall at all times (including after assignment pursuant to Section 10.4) be represented by one or more promissory notes in such form payable to the order of the payee named therein (or, if such promissory note is a registered note, to such payee and its registered assigns). In addition, upon receipt of an affidavit of an officer of such Lender as to the loss, theft, destruction or mutilation of the promissory note, and, in the case of any such loss, theft, destruction or mutilation, upon cancellation of such promissory note, the Borrower will issue, in lieu thereof, a replacement promissory note in the same principal amount thereof and otherwise of like tenor.

SECTION 2.9. Prepayment of Loans. (a) The Borrower shall have the right at any time and from time to time to prepay the Borrowing in whole or in part, without premium or penalty except as provided in Section 2.14. The Borrower shall notify the Administrative Agent by telephone (confirmed by telecopy) of any prepayment hereunder not later than 11:00 a.m., New York City time, three Business Days before the date of prepayment. Each such notice shall be irrevocable and shall specify the prepayment date and the principal amount of the Borrowing to be prepaid. Promptly following receipt of any such notice, the Administrative Agent shall advise the Lenders of the contents thereof. Each partial prepayment shall be in an amount that is an integral multiple of $10,000,000 and not less than $50,000,000. Each prepayment under this Section 2.9(a) shall be applied ratably to the Loans then outstanding and shall be accompanied by accrued interest to the extent required by Section 2.11.

(b) An amount equal to 100% of the Net Cash Proceeds of any issuance of capital market debt obligations (other than commercial paper) by the Guarantor, the Borrower, or any of their respective Subsidiaries shall be applied on the date of such issuance toward the prepayment of the Borrowing. Each prepayment under this Section 2.9(b) shall be applied ratably to the Loans then outstanding and shall be accompanied by accrued interest to the extent required by Section 2.11.

SECTION 2.10. Fees. (a) The Borrower agrees to pay to the Administrative Agent, for its own account, fees payable in the amounts and at the times separately agreed upon between the Borrower and the Administrative Agent.

(b) All fees payable hereunder shall be paid on the dates due, in immediately available funds. Fees paid shall not be refundable under any circumstances.

SECTION 2.11. Interest. (a) The Loans shall bear interest at a rate per annum equal to the LIBOR Rate for the Interest Period in effect plus the Applicable Rate.

(b) Notwithstanding the foregoing, if any principal of or interest on any Loan or any fee or other amount payable by the Borrower hereunder is not paid when due, whether at stated maturity, upon acceleration or otherwise, such overdue amount shall bear interest, after as well as before judgment, at a rate per annum equal to 2% plus the rate otherwise applicable to the Loans as provided above.

(c) Accrued interest on each Loan shall be payable in arrears on each Interest Payment Date for such Loan; provided that (i) interest accrued pursuant to paragraph (b) of this Section shall be payable on demand, (ii) in the event of any repayment or prepayment of any Loan, accrued interest on the principal amount repaid or prepaid shall be payable on the date of such repayment or prepayment, and (iii) all accrued interest shall be payable upon the Maturity Date.

(d) All interest hereunder shall be computed on the basis of a year of 360 days. The LIBOR Rate shall be determined by the Administrative Agent, and such determination shall be conclusive absent manifest error. The Administrative Agent shall as soon as practicable notify the Borrower and the Lenders of the effective date and the amount of each change in interest rate.

SECTION 2.12. Alternate Rate of Interest. If prior to the commencement of any Interest Period:

(a) the Administrative Agent determines (which determination shall be conclusive absent manifest error) that adequate and reasonable means do not exist for ascertaining the LIBOR Rate for such Interest Period; or

(b) the Administrative Agent is advised by the Required Lenders that the LIBOR Rate for such Interest Period will not adequately and fairly reflect the cost to such Lenders of making or maintaining their Loans for such Interest Period;

then the Administrative Agent shall give notice thereof to the Borrower and the Lenders by telephone or telecopy as promptly as practicable thereafter and, until the Administrative Agent notifies the Borrower and the Lenders that the circumstances giving rise to such notice no longer exist, the Borrower and the Lenders shall negotiate in good faith to determine a comparable interest rate of the Loans and, in the absence of agreement on such a rate, the interest rate applicable to the Loans shall be an "alternate base rate" as reasonably determined by the Administrative Agent according to methodology as described in the Existing Revolving Credit Agreement.

SECTION 2.13. Increased Costs. (a) If any Change in Law shall:

(i) impose, modify or deem applicable any reserve, special deposit or similar requirement against assets of, deposits with or for the account of, or credit extended by, any Lender; or

(ii) impose on any Lender or the London interbank market any other condition affecting this Agreement or such Lender's Loan;

and the result of any of the foregoing shall be to increase the cost to such Lender of maintaining the Loan made by such Lender or to increase the cost to such Lender or to reduce the amount of any sum received or receivable by such Lender hereunder (whether of principal, interest or otherwise), then the Borrower will pay to such Lender such additional amount or amounts as will compensate such Lender for such additional costs incurred or reduction suffered.

(b) If any Lender determines that any Change in Law regarding capital requirements has or would have the effect of reducing the rate of return on such Lender's capital or on the capital of such Lender's holding company, if any, as a consequence of this Agreement or the Loan made by such Lender to a level below that which such Lender or such Lender's holding company could have achieved but for such Change in Law (taking into consideration such Lender's policies and the policies of such Lender's holding company with respect to capital adequacy), then from time to time the Borrower will

pay to such Lender such additional amount or amounts as will compensate such Lender or such Lender's holding company for any such reduction suffered.

(c) A certificate of a Lender setting forth the amount or amounts necessary to compensate such Lender or its holding company, as the case may be, as specified in paragraph (a) or (b) of this Section (together with a statement of the reason for such compensation and a calculation thereof in reasonable detail) shall be delivered to the Borrower and shall be conclusive absent manifest error. The Borrower shall pay such Lender the amount shown as due on any such certificate within 10 days after receipt thereof.

(d) Failure or delay on the part of any Lender to demand compensation pursuant to this Section shall not constitute a waiver of such Lender's right to demand such compensation; provided that the Borrower shall not be required to compensate a Lender pursuant to this Section for any increased costs or reductions incurred more than six months prior to the date that such Lender notifies the Borrower of the Change in Law giving rise to such increased costs or reductions and of such Lender's intention to claim compensation therefor; provided, further, that, if the Change in Law giving rise to such increased costs or reductions is retroactive, then the six-month period referred to above shall be extended to include the period of retroactive effect thereof.

SECTION 2.14. Break Funding Payments. In the event of (a) the payment of any principal of any Loan other than on the last day of an Interest Period applicable thereto (including as a result of an Event of Default), (b) the failure to borrow, continue or prepay any Loan on the date specified in any notice delivered pursuant hereto, or (c) the assignment of any Loan other than on the last day of an Interest Period applicable thereto as a result of a request by the Borrower pursuant to Section 2.17, then, in any such event, the Borrower shall compensate each Lender for the loss, cost and expense attributable to such event. The loss to any Lender attributable to any such event shall be deemed to include an amount determined by such Lender to be equal to the excess, if any, of (i) the amount of interest that such Lender would pay for a deposit equal to the principal amount of the Loan made by it for the period from the date of such payment, failure or assignment to the last day of the then current Interest Period for such Loan (or, in the case of a failure to borrow or continue, the duration of the Interest Period that would have resulted from such borrowing or continuation) if the interest rate payable on such deposit were equal to the LIBOR Rate for such Interest Period, over (ii) the amount of interest that such Lender would earn on such principal amount for such period if such Lender were to invest such principal amount for such period at the interest rate that would be bid by such Lender (or an affiliate of such Lender) for dollar deposits from other banks in the eurodollar market at the commencement of such period. A certificate of any Lender setting forth any amount or amounts that such Lender is entitled to receive pursuant to this Section shall be delivered to the Borrower and shall be conclusive absent manifest error. The Borrower shall pay such Lender the amount shown as due on any such certificate within 10 days after receipt thereof.

SECTION 2.15. Taxes. (a) Any and all payments by or on account of any obligation of the Borrower or the Guarantor hereunder shall be made free and clear of and without deduction for any Indemnified Taxes or Other Taxes; provided that if the Borrower or the Guarantor shall be required to deduct any Indemnified Taxes or Other Taxes from such payments, then (i) the sum payable shall be increased as necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section) the Administrative Agent or Lender (as the case may be) receives an amount equal to the sum it would have received had no such deductions been made (provided, however, that neither the Borrower nor the Guarantor shall be required to increase any such amounts payable to the Administrative Agent or Lender (as the case may be) with respect to any Indemnified or Other Taxes that are attributable to such Lender's failure to comply with the requirements of paragraph (e) of this Section), (ii) the Borrower or the Guarantor shall make such deductions and (iii) the Borrower

or the Guarantor shall pay the full amount deducted to the relevant Governmental Authority in accordance with applicable law.

(b) In addition, the Borrower shall pay any Other Taxes to the relevant Governmental Authority in accordance with applicable law.

(c) The Borrower shall indemnify the Administrative Agent and each Lender, within 10 days after written demand therefor, for the full amount of any Indemnified Taxes or Other Taxes (including Indemnified Taxes or Other Taxes imposed or asserted on or attributable to amounts payable under this Section) paid by the Administrative Agent or such Lender, as the case may be, and any penalties, interest and reasonable expenses arising therefrom or with respect thereto, whether or not such Indemnified Taxes or Other Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. A certificate as to the amount of such payment or liability delivered to the Borrower by a Lender, or by the Administrative Agent on its own behalf or on behalf of a Lender, shall be conclusive absent manifest error.

(d) As soon as practicable after any payment of Indemnified Taxes or Other Taxes by the Borrower to a Governmental Authority, the Borrower shall deliver to the Administrative Agent the original or a certified copy of a receipt issued by such Governmental Authority evidencing such payment, a copy of the return reporting such payment or other evidence of such payment reasonably satisfactory to the Administrative Agent.

(e) Any Foreign Lender that is entitled to an exemption from or reduction of withholding tax under the law of the jurisdiction in which the Borrower is located, or any treaty to which such jurisdiction is a party, with respect to payments under this Agreement shall deliver to the Borrower (with a copy to the Administrative Agent), at the time or times prescribed by applicable law or reasonably requested by the Borrower, such properly completed and executed documentation prescribed by applicable law as will permit such payments to be made without withholding or at a reduced rate.

SECTION 2.16. Payments Generally; Pro Rata Treatment; Sharing of Set-offs. (a) The Borrower shall make each payment required to be made by it hereunder (whether of principal, interest or fees, or under Section 2.9,2.13, 2.14 or 2.15, or otherwise) prior to 12:00 noon, New York City time, on the date when due, in immediately available funds, without set-off or counterclaim. Any amounts received after such time on any date may, in the discretion of the Administrative Agent, be deemed to have been received on the next succeeding Business Day for purposes of calculating interest thereon. All such payments shall be made to the Administrative Agent at its offices at 452 Fifth Avenue, New York, New York, except that payments pursuant to Sections 2.13, 2.14, 2.15 and 10.3 shall be made directly to the Persons entitled thereto. The Administrative Agent shall distribute any such payments received by it for the account of any other Person to the appropriate recipient promptly following receipt thereof. If any payment hereunder shall be due on a day that is not a Business Day, the date for payment shall be extended to the next succeeding Business Day, and, in the case of any payment accruing interest, interest thereon shall be payable for the period of such extension. All payments hereunder shall be made in dollars.

(b) If at any time insufficient funds are received by and available to the Administrative Agent to pay fully all amounts of principal, interest, fees and any other amounts then due hereunder, such funds shall be applied (i) first, to pay interest and fees then due hereunder, ratably among the parties entitled thereto in accordance with the amounts of interest and fees then due to such parties, (ii) second, to pay principal then due hereunder, ratably among the parties entitled thereto in accordance with the amounts of principal then due to such parties, and (iii) third, any other amounts due and owing

hereunder, ratably among the parties entitled thereto in accordance with such amounts then due to such parties.

(c) If any Lender shall, by exercising any right of set-off or counterclaim or otherwise, obtain payment in respect of any principal of or interest on any of its Loans resulting in such Lender receiving payment of a greater proportion of the aggregate amount of its Loan and accrued interest thereon than the proportion received by any other Lender, then the Lender receiving such greater proportion shall purchase (for cash at face value) participations in the Loans of other Lenders to the extent necessary so that the benefit of all such payments shall be shared by the Lenders ratably in accordance with the aggregate amount of principal of and accrued interest on their respective Loans, provided that (i) if any such participations are purchased and all or any portion of the payment giving rise thereto is recovered, such participations shall be rescinded and the purchase price restored to the extent of such recovery, without interest, and (ii) the provisions of this paragraph shall not be construed to apply to any payment made by the Borrower pursuant to and in accordance with the express terms of this Agreement or any payment obtained by a Lender as consideration for the assignment of or sale of a participation in its Loan to any assignee or participant, other than to the Borrower or any Subsidiary or Affiliate thereof (as to which the provisions of this paragraph shall apply). The Borrower consents to the foregoing and agrees, to the extent it may effectively do so under applicable law, that any Lender acquiring a participation pursuant to the foregoing arrangements may exercise against the Borrower rights of set-off and counterclaim with respect to such participation as fully as if such Lender were a direct creditor of the Borrower in the amount of such participation.

(d) Unless the Administrative Agent shall have received notice from the Borrower prior to the date on which any payment is due to the Administrative Agent for the account of the Lenders hereunder that the Borrower will not make such payment, the Administrative Agent may assume that the Borrower has made such payment on such date in accordance herewith and may, in reliance upon such assumption, distribute to the Lenders the amount due. In such event, if the Borrower has not in fact made such payment, then each of the Lenders severally agrees to repay to the Administrative Agent forthwith on demand the amount so distributed to such Lender with interest thereon, for each day from and including the date such amount is distributed to it to but excluding the date of payment to the Administrative Agent, at the Federal Funds Effective Rate.

(e) If any Lender shall fail to make any payment required to be made by it pursuant to Section 2.5(b), 2.16(c) or 2.16(d), then the Administrative Agent may, in its discretion (notwithstanding any contrary provision hereof), apply any amounts thereafter received by the Administrative Agent for the account of such Lender to satisfy such Lender’s obligations under such Sections until all such unsatisfied obligations are fully paid.

SECTION 2.17. Mitigation Obligations; Replacement of Lenders. (a) If any Lender requests compensation under Section 2.13, or if the Borrower is required to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 2.15, then such Lender shall use reasonable efforts to designate a different lending office for funding or booking its Loan hereunder or to assign its rights and obligations hereunder to another of its offices, branches or affiliates, if, in the judgment of such Lender, such designation or assignment (i) would eliminate or reduce amounts payable pursuant to Section 2.13 or 2.15, as the case may be, in the future and (ii) would not subject such Lender to any unreimbursed cost or expense and would not otherwise be disadvantageous to such Lender. The Borrower hereby agrees to pay all reasonable costs and expenses incurred by any Lender in connection with any such designation or assignment.

(b) If any Lender requests compensation under Section 2.13, or if the Borrower is required to pay any additional amount to any Lender or any Governmental Authority for the account of

any Lender pursuant to Section 2.15, then the Borrower may, at its sole expense and effort, upon notice to such Lender and the Administrative Agent, require such Lender to assign and delegate, without recourse (in accordance with and subject to the restrictions contained in Section 10.4), all its interests, rights and obligations under this Agreement to an assignee that shall assume such obligations (which assignee may be another Lender, if a Lender accepts such assignment); provided that (i) the Borrower shall have received the prior written consent of the Administrative Agent, which consent shall not unreasonably be withheld, (ii) such Lender shall have received payment of an amount equal to the outstanding principal of its Loan, accrued interest thereon, accrued fees and all other amounts payable to it hereunder, from the assignee (to the extent of such outstanding principal and accrued interest and fees) or the Borrower (in the case of all other amounts) and (iii) in the case of any such assignment resulting from a claim for compensation under Section 2.13 or payments required to be made pursuant to Section 2.15, such assignment will result in a reduction in such compensation or payments. A Lender shall not be required to make any such assignment and delegation if, prior thereto, as a result of a waiver by such Lender or otherwise, the circumstances entitling the Borrower to require such assignment and delegation cease to apply. In determining whether to make a claim, and calculating the amount of compensation, under Sections 2.13 and 2.15, each Lender shall apply standards that are not inconsistent with those generally applied by such Lender in similar circumstances.

ARTICLE III

REPRESENTATIONS AND WARRANTIES

Each of the Credit Parties represents and warrants to the Lenders that:

SECTION 3.1. Organization; Powers. Each of the Credit Parties and the Subsidiaries is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization, has the power and authority to carry on its business as now conducted and, except where the failure to be so, individually or in the aggregate, would not reasonably be expected to result in a Material Adverse Effect, is qualified to do business in, and is in good standing in, every jurisdiction where such qualification is required.

SECTION 3.2. Authorization; Enforceability. The Transactions are within each Credit Party's corporate powers and have been duly authorized by all necessary corporate and, if required, stockholder action. This Agreement has been duly executed and delivered by each Credit Party and constitutes a legal, valid and binding obligation of each Credit Party, enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium or other laws affecting creditors' rights generally and subject to general principles of equity, regardless of whether considered in a proceeding in equity or at law.

SECTION 3.3. Governmental Approvals; No Conflicts. The Transactions (a) do not require any consent or approval of, registration or filing with, or any other action by, any Governmental Authority, except such as have been obtained or made and are in full force and effect, (b) will not violate any applicable law or regulation or the charter, by-laws or other organizational documents of any Credit Party or any Subsidiary or any order of any Governmental Authority, (c) will not violate or result in a default under any indenture, material agreement or other instrument (other than those to be terminated on or prior to the Closing Date) binding upon any Credit Party or any Subsidiary or their assets, or give rise to a right thereunder to require any payment to be made by any Credit Party or any Subsidiary, and (d) will not result in the creation or imposition of any Lien on any asset of any Credit Party or any Subsidiary.

SECTION 3.4. Financial Condition; No Material Adverse Change. (a) Each Credit Party has heretofore furnished to the Lenders consolidated balance sheets and statements of income and cash flows (and, in the case of the Guarantor, of stockholders' equity) as of and for the fiscal year ended April 30, 2006 (A) reported on by KPMG LLP, an independent registered public accounting firm, in respect of the financial statements of the Guarantor, and (B) certified by its chief financial officer, in respect of the financial statements of the Borrower. Each Credit Party has heretofore furnished to the Lenders consolidated balance sheets and statements of income and cash flows (and, in the case of the Guarantor, of stockholders' equity) as of and for the nine-month period ended January 31, 2007 certified by its chief financial officer. Such financial statements present fairly, in all material respects, the financial position and results of operations and cash flows of the Borrower and its consolidated Subsidiaries and of the Guarantor and its consolidated Subsidiaries as of such dates and for such periods in accordance with GAAP. Except as set forth on Schedule 3.4(a), neither the Guarantor nor any of its consolidated Subsidiaries had, at the date of the most recent balance sheet referred to above, any material Guarantee Obligation, contingent liability or liability for taxes, or any long-term lease or unusual forward or long-term commitment, including any interest rate or foreign currency swap or exchange transaction not in the ordinary course of business, which is not reflected in the foregoing statements or in the notes thereto. During the period from April 30, 2006 to and including the date hereof, and except as disclosed in filings made by the Guarantor with the U.S. Securities and Exchange Commission pursuant to the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, there has been no sale, transfer or other disposition by the Guarantor or any of its consolidated Subsidiaries of any material part of its business or property other than in the ordinary course of business and no purchase or other acquisition of any business or property (including any Capital Stock of any other Person), material in relation to the consolidated financial condition of the Guarantor and its consolidated Subsidiaries at April 30, 2006.

(b) Since April 30, 2006, there has been no material adverse change in the business, assets, property or condition (financial or otherwise) of the Guarantor and its Subsidiaries, taken as a whole.

SECTION 3.5. Properties. (a) Each of the Credit Parties and the Subsidiaries has good title to, or valid leasehold interests in, all its real and personal property material to its business, except for minor defects in title that do not interfere with its ability to conduct its business as currently conducted or to utilize such properties for their intended purposes.

(b) Each of the Credit Parties and the Subsidiaries owns, or is licensed to use, all trademarks, tradenames, copyrights, patents and other intellectual property material to its business, and the use thereof by the Credit Parties and the Subsidiaries does not infringe upon the rights of any other Person, except for any such infringements that, individually or in the aggregate, would not reasonably be expected to result in a Material Adverse Effect.

SECTION 3.6. Litigation and Environmental Matters. (a) There are no actions, suits or proceedings by or before any arbitrator or Governmental Authority pending against or, to the knowledge of any Credit Party, threatened against or affecting any Credit Party or any Subsidiary that (i) have not been disclosed in the Disclosed Matters and as to which there is a reasonable possibility of an adverse determination and that, if adversely determined, would reasonably be expected, individually or in the aggregate, to result in a Material Adverse Effect or (ii) challenge or would reasonably be expected to affect the legality, validity or enforceability of this Agreement.

(b) Except for the Disclosed Matters and except with respect to any other matters that, individually or in the aggregate, would not reasonably be expected to result in a Material Adverse Effect, neither of the Credit Parties nor any Subsidiary (i) has failed to comply with any Environmental

Law or to obtain, maintain or comply with any permit, license or other approval required under any Environmental Law, (ii) has become subject to any Environmental Liability, (iii) has received notice of any claim with respect to any Environmental Liability or (iv) knows of any basis for any Environmental Liability.

SECTION 3.7. Compliance with Laws and Agreements. Each of the Credit Parties and the Subsidiaries is in compliance with all laws, regulations and orders of any Governmental Authority applicable to it or its property and all indentures, agreements and other instruments binding upon it or its property, except where the failure to be so, individually or in the aggregate, would not reasonably be expected to result in a Material Adverse Effect.

SECTION 3.8. Investment Company Status. Neither of the Credit Parties nor any of the Subsidiaries is an "investment company" as defined in, or subject to regulation under, the Investment Company Act of 1940, as amended.

SECTION 3.9. Taxes. Each of the Credit Parties and the Subsidiaries has timely filed or caused to be filed all Tax returns and reports required to have been filed and has paid or caused to be paid all Taxes required to have been paid by it, except (a) Taxes that are being contested in good faith by appropriate proceedings and for which the Guarantor, the Borrower or such Subsidiary, as applicable, has set aside on its books adequate reserves or (b) to the extent that the failure to do so would not reasonably be expected to result in a Material Adverse Effect.

SECTION 3.10. ERISA. No ERISA Event has occurred or is reasonably expected to occur that, when taken together with all other such ERISA Events for which liability is reasonably expected to occur, would reasonably be expected to result in a Material Adverse Effect. The present value of all accumulated benefit obligations under each Plan (based on the assumptions used for purposes of Statement of Financial Accounting Standards No. 87) did not, as of the date of the most recent financial statements reflecting such amounts, exceed by more than $25,000,000 the fair market value of the assets of such Plan, and the present value of all accumulated benefit obligations of all underfunded Plans (based on the assumptions used for purposes of Statement of Financial Accounting Standards No. 87) did not, as of the date of the most recent financial statements reflecting such amounts, exceed by more than $25,000,000 the fair market value of the assets of all such underfunded Plans.

SECTION 3.11. Disclosure. None of the reports, financial statements, certificates or other information furnished by or on behalf of the Credit Parties to the Administrative Agent or any Lender in connection with the negotiation of this Agreement or delivered hereunder (as modified or supplemented by other information so furnished) contains any material misstatement of fact or omits to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided that, with respect to projected financial information, the Credit Parties represent only that such information was prepared in good faith based upon assumptions believed to be reasonable at the tune.

SECTION 3.12. Federal Regulations. No part of the proceeds of any Loans will be used for "purchasing" or "carrying" any "margin stock" (within the respective meanings of each of the quoted terms under Regulation U of the Board as now and from time to time hereafter in effect) in a manner or in circumstances that would constitute or result in non-compliance by any Credit Party or any Lender with the provisions of Regulations U, T or X of the Board. If requested by any Lender or the Administrative Agent, the Borrower will furnish to the Administrative Agent and each Lender a statement to the foregoing effect in conformity with the requirements of FR Form U-l referred to in said Regulation U.

SECTION 3.13. Subsidiaries. As of the date hereof, the Guarantor has only the Subsidiaries set forth on Schedule 3.13.

SECTION 3.14. Insurance. Each Credit Party and each Subsidiary of each Credit Party maintains (pursuant to a self-insurance program and/or with financially sound and reputable insurers) insurance with respect to its properties and business and against at least such liabilities, casualties and contingencies and in at least such types and amounts as is customary in the case of companies engaged in the same or a similar business or having similar properties similarly situated.

ARTICLE IV

CONDITIONS

The obligations of the Lenders to make Loans hereunder shall not become effective until the date on which each of the following conditions is satisfied (or waived in accordance with Section 10.2):

(a) The Administrative Agent (or its counsel) shall have received from each party hereto a counterpart of this Agreement signed on behalf of such party.

(b) The Lenders and the Administrative Agent shall have received all fees required to be paid on or prior to the Closing Date.

(c) The Administrative Agent shall have received reasonably satisfactory written opinions (addressed to the Administrative Agent and the Lenders and dated the Closing Date) of Mayer, Brown, Rowe & Maw LLP, special New York counsel for the Credit Parties, and Bryan Cave LLP, special counsel for the Credit Parties, substantially in the forms of Exhibit B-1 and B-2, respectively, and covering such other matters relating to the Credit Parties, this Agreement or the Transactions as the Required Lenders shall reasonably request. The Credit Parties hereby request such counsel to deliver such opinion.

(d) The Administrative Agent shall have received such documents and certificates as the Administrative Agent or its counsel may reasonably request relating to the organization, existence and good standing of the Credit Parties, the authorization of the Transactions and any other legal matters relating to the Credit Parties, this Agreement or the Transactions, all in form and substance satisfactory to the Administrative Agent and its counsel.

(e) The Administrative Agent shall have received a certificate, dated the Closing Date and signed by the President, a Vice President or a Financial Officer of each Credit Party, confirming compliance with the conditions set forth in paragraphs (h) and (i) of this Article IV.

(f) The Administrative Agent shall have received all fees and other amounts due and payable on or prior to the Closing Date, including, to the extent invoiced, reimbursement or payment of all out-of-pocket expenses required to be reimbursed or paid by the Borrower hereunder.

(g) All governmental and material third party approvals necessary in connection with the execution, delivery and performance of this Agreement shall have been obtained and be in full force and effect.

(h) The representations and warranties of the Credit Parties set forth in Article III of this Agreement shall be true and correct in all material respects on and as of the Closing Date.

(i) At the time of and immediately after giving effect to the Borrowing, no Default shall have occurred and be continuing.

The Administrative Agent shall notify the Borrower and the Lenders of the Closing Date, and such notice shall be conclusive and binding.

ARTICLE V

COVENANTS

Until the principal of and interest on each Loan and all fees payable hereunder shall have been paid in full, each of the Credit Parties covenants and agrees with the Lenders that it will comply with the covenants set forth in Articles V and VI of the Existing Revolving Credit Agreement (other than Section 5.9 of the Existing Revolving Credit Agreement) and the terms and provisions set forth therein shall be incorporated by reference in this Agreement in their entirety as if fully set forth herein with the same effect as if applied to this Agreement; provided, that Section 6.5 of the Existing Revolving Credit Agreement shall not apply to any transactions with OOMC. All capitalized terms set forth in Articles V and VI of the Existing Revolving Credit Agreement shall have the meanings provided in the Existing Revolving Credit Agreement.

If Article V or VI of the Existing Revolving Credit Agreement or any definitions set forth or used therein are amended or modified or the Existing Revolving Credit Agreement is terminated, this Article V shall be deemed refer to the Existing Revolving Credit Agreement as in effect immediately prior to such amendment, modification or termination, except, in the case of any such amendment or modification, if the Required Lenders have consented thereto (either as parties to the Existing Revolving Credit Agreement or as Lenders hereunder).

ARTICLE VI

[RESERVED]

ARTICLE VII

GUARANTEE

SECTION 7.1. Guarantee. (a) The Guarantor hereby unconditionally and irrevocably guarantees to the Administrative Agent and the Lenders and their respective successors, indorsees, transferees and assigns, the prompt and complete payment and performance by the Borrower when due (whether at the stated maturity, by acceleration or otherwise) of the Obligations.

(b) The Guarantor further agrees to pay any and all expenses (including all fees and disbursements of counsel) which may be paid or incurred by the Administrative Agent or any Lender in enforcing, or obtaining advice of counsel in respect of, any rights with respect to, or collecting, any or all of the Obligations and/or enforcing any rights with respect to, or collecting against, the Guarantor under this Article. This Article shall remain in full force and effect until the Obligations and the obligations of

the Guarantor under the guarantee contained in this Article shall have been satisfied by payment in full, notwithstanding that from time to time prior thereto the Borrower may be free from any Obligations.

(c) No payment or payments made by any Credit Party, any other guarantor or any other Person or received or collected by the Administrative Agent or any Lender from any Credit Party or any other Person by virtue of any action or proceeding or any set-off or appropriation or application, at any time or from time to time, in reduction of or in payment of the Obligations shall be deemed to modify, reduce, release or otherwise affect the liability of the Guarantor hereunder which shall, notwithstanding any such payment or payments, remain liable hereunder for the Obligations until the Obligations are paid in full.

(d) The Guarantor agrees that whenever, at any tune or from time to time, it shall make any payment to the Administrative Agent or any Lender on account of its liability hereunder, it will notify the Administrative Agent and such Lender in writing that such payment is made under this Article for such purpose.

SECTION 7.2. Delay of Subrogation. Notwithstanding any payment or payments made by the Guarantor hereunder, or any set-off or application of funds of the Guarantor by the Administrative Agent or any Lender, the Guarantor shall not be entitled to be subrogated to any of the rights of the Administrative Agent or any Lender against the Borrower or against any collateral security or guarantee or right of offset held by the Administrative Agent or any Lender for the payment of the Obligations, nor shall the Guarantor seek or be entitled to seek any contribution or reimbursement from the Borrower in respect of payments made by the Guarantor hereunder, until all amounts owing to the Administrative Agent and the Lenders by the Borrower on account of the Obligations are paid in full. If any amount shall be paid to the Guarantor on account of such subrogation rights at any time when all of the Obligations shall not have been paid in full, such amount shall be held by the Guarantor in trust for the Administrative Agent and the Lenders, segregated from other funds of the Guarantor, and shall, forthwith upon receipt by the Guarantor, be turned over to the Administrative Agent in the exact form received by the Guarantor (duly indorsed by the Guarantor to the Administrative Agent, if required) to be applied against the Obligations, whether matured or unmatured, in such order as the Administrative Agent may determine. The provisions of this Section shall be effective notwithstanding the termination of this Agreement and the payment in full of the Obligations.

SECTION 7.3. Amendments, etc. with respect to the Obligations; Waiver of Rights. The Guarantor shall remain obligated hereunder notwithstanding that, without any reservation of rights against the Guarantor, and without notice to or further assent by the Guarantor, any demand for payment of any of the Obligations made by the Administrative Agent or any Lender may be rescinded by the Administrative Agent or such Lender, and any of the Obligations continued, and the Obligations, or the liability of any other party upon or for any part thereof, or any collateral security or guarantee therefor or right of offset with respect thereto, may, from time to time, in whole or in part, be renewed, extended, amended, modified, accelerated, compromised, waived, surrendered or released by the Administrative Agent or any Lender, and this Agreement and any other documents executed and delivered in connection herewith may be amended, modified, supplemented or terminated, in whole or in part, in accordance with the provisions hereof as the Administrative Agent (or the requisite Lenders, as the case may be) may deem advisable from time to time, and any collateral security, guarantee or right of offset at any time held by the Administrative Agent or any Lender for the payment of the Obligations may be sold, exchanged, waived, surrendered or released. Neither the Administrative Agent nor any Lender shall have any obligation to protect, secure, perfect or insure any Lien at any time held by it as security for the Obligations or for this Agreement or any property subject thereto. When making any demand hereunder against the Guarantor, the Administrative Agent or any Lender may, but shall be under no obligation to, make a similar demand on the Borrower or any other guarantor, and any failure by the Administrative Agent or any Lender to make any such demand or to collect any payments from the Borrower or any such other guarantor or any release of the Borrower or such other guarantor shall not relieve the Guarantor of its obligations or liabilities hereunder, and shall not impair or affect the rights and remedies, express or implied, or as a matter of law, of the Administrative Agent or any Lender against the Guarantor. For the purposes hereof “demand” shall include the commencement and continuance of any legal proceedings.

SECTION 7.4. Guarantee Absolute and Unconditional. The Guarantor waives any and all notice of the creation, renewal, extension or accrual of any of the Obligations and notice of or proof of reliance by the Administrative Agent or any Lender upon this Agreement or acceptance of this Agreement; the Obligations, and any of them, shall conclusively be deemed to have been created, contracted or incurred, or renewed, extended, amended or waived, in reliance upon this Agreement; and all dealings between the Borrower and the Guarantor, on the one hand, and the Administrative Agent and the Lenders, on the other, shall likewise be conclusively presumed to have been had or consummated in reliance upon this Agreement. The Guarantor waives diligence, presentment, protest, demand for payment and notice of default or nonpayment to or upon the Borrower and the Guarantor with respect to the Obligations. This Article shall be construed as a continuing, absolute and unconditional guarantee of payment without regard to (a) the validity, regularity or enforceability of this Agreement, any other documents executed and delivered in connection herewith, any of the Obligations or any other collateral security therefor or guarantee or right of offset with respect thereto at any time or from time to time held by the Administrative Agent or any Lender, (b) any defense, set-off or counterclaim (other than a defense of payment or performance) which may at any time be available to or be asserted by the Guarantor against the Administrative Agent or any Lender, or (c) any other circumstance whatsoever (with or without notice to or knowledge of the Borrower or the Guarantor) which constitutes, or might be construed to constitute, an equitable or legal discharge of the Borrower for the Obligations, or of the Guarantor under this Article, in bankruptcy or in any other instance. When pursuing its rights and remedies hereunder against the Guarantor, the Administrative Agent and any Lender may, but shall be under no obligation to, pursue such rights and remedies as it may have against the Borrower or any other Person or against any collateral security or guarantee for the Obligations or any right of offset with respect thereto, and any failure by the Administrative Agent or any Lender to pursue such other rights or remedies or to collect any payments from the Borrower or any such other Person or to realize upon any such collateral security or guarantee or to exercise any such right of offset, or any release of the Borrower or any such other Person or of any such collateral security, guarantee or right of offset, shall not relieve the Guarantor of any liability

hereunder, and shall not impair or affect the rights and remedies, whether express, implied or available as a matter of law, of the Administrative Agent or any Lender against the Guarantor. This Article shall remain in full force and effect and be binding in accordance with and to the extent of its terms upon the Guarantor and its successors and assigns, and shall inure to the benefit of the Administrative Agent and the Lenders, and their respective successors, indorsees, transferees and assigns, until all the Obligations and the obligations of the Guarantor under this Agreement shall have been satisfied by payment in full, notwithstanding that from time to time during the term of this Agreement the Borrower may be free from any Obligations.

SECTION 7.5. Reinstatement. This Article shall continue to be effective, or be reinstated, as the case may be, if at any time payment, or any part thereof, of any of the Obligations is rescinded or must otherwise be restored or returned by the Administrative Agent or any Lender upon the insolvency, bankruptcy, dissolution, liquidation or reorganization of any Credit Party or upon or as a result of the appointment of a receiver, intervenor or conservator of, or trustee or similar officer for, any Credit Party or any substantial part of its property, or otherwise, all as though such payments had not been made.

SECTION 7.6. Payments. The Guarantor hereby agrees that all payments required to be made by it hereunder will be made to the Administrative Agent without set-off or counterclaim in accordance with the terms of the Obligations, including in the currency in which payment is due.

ARTICLE VIII

EVENTS OF DEFAULT

If any of the following events ("Events of Default") shall occur:

(a) the Borrower shall fail to pay any principal of any Loan when and as the same shall become due and payable, whether at the due date thereof or at a date fixed for prepayment thereof or otherwise;

(b) the Borrower shall fail to pay any interest on any Loan or any fee or any other amount (other than an amount referred to in clause (a) of this Article) payable under this Agreement, when and as the same shall become due and payable, and such failure shall continue unremedied for a period of five business days;

(c) any representation or warranty made or deemed made by any Credit Party (or any of its officers) in or in connection with this Agreement or any amendment or modification hereof, or in any report, certificate, financial statement or other document furnished pursuant to or in connection with this Agreement or any amendment or modification hereof, shall prove to have been incorrect in any material respect when made or deemed made;

(d) any Credit Party shall fail to observe or perform any covenant, condition or agreement contained in Article V as it relates to Section 5.2, 5.3 (with respect to the Credit Parties' existence) or 5.8 or Article VI of the Existing Revolving Credit Agreement;

(e) any Credit Party shall fail to observe or perform any covenant, condition or agreement contained in this Agreement (other than those specified in clause (a), (b) or (d) of this Article), and such failure shall continue unremedied for a period of 30 days after notice thereof from the Administrative Agent (given at the request of any Lender) to the Borrower;

(f) any Credit Party or any Subsidiary shall fail to make any payment (whether of principal or interest and regardless of amount) in respect of any Material Indebtedness, when and as the same shall become due and payable (after expiration of any applicable grace or cure period);

(g) any event or condition occurs that results in any Material Indebtedness becoming due prior to its scheduled maturity; provided that this clause (g) shall not apply to (i) secured Indebtedness that becomes due as a result of the voluntary sale or transfer of the property or assets securing such Indebtedness or (ii) any obligation under a Hedging Agreement that becomes due as a result of a default by a party thereto other than a Credit Party or a Subsidiary;

(h) an involuntary proceeding shall be commenced or an involuntary petition shall be filed seeking (i) liquidation, reorganization or other relief in respect of any Credit Party or any Material Subsidiary or its debts, or of a substantial part of its assets, under any Federal, state or foreign bankruptcy, insolvency, receivership or similar law now or hereafter in effect or (ii) the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for any Credit Party or any Material Subsidiary or for a substantial part of its assets, and, in any such case, such proceeding or petition shall continue undismissed for 60 days or an order or decree approving or ordering any of the foregoing shall be entered;

(i) any Credit Party or any Material Subsidiary shall (i) voluntarily commence any proceeding or file any petition seeking liquidation, reorganization or other relief under any Federal, state or foreign bankruptcy, insolvency, receivership or similar law now or hereafter in effect, (ii) consent to the institution of, or fail to contest in a timely and appropriate manner, any proceeding or petition described in clause (h) of this Article, (iii) apply for or consent to the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for the Borrower or any Material Subsidiary or for a substantial part of its assets, (iv) file an answer admitting the material allegations of a petition filed against it in any such proceeding, (v) make a general assignment for the benefit of creditors or (vi) take any action for the purpose of effecting any of the foregoing;

(j) any Credit Party or any Material Subsidiary shall become unable, admit in writing or fail generally to pay its debts as they become due;

(k) one or more final judgments for the payment of money shall be rendered against the Guarantor, the Borrower, any Subsidiary or any combination thereof and either (i) a creditor shall have commenced enforcement proceedings upon any such judgment in an aggregate amount (to the extent not covered by insurance as to which the relevant insurance company has not denied coverage) in excess of $40,000,000 (a "Material Judgment") or (ii) there shall be a period of 30 consecutive days during which a stay of enforcement of any Material Judgment shall not be in effect (by reason of pending appeal or otherwise) (it being understood that, notwithstanding the definition of "Default", no "Default" shall be triggered solely by the rendering of such a judgment or judgments prior to the commencement of enforcement proceedings or the lapse of such 30 consecutive day period, so long as such judgments are capable of satisfaction by payment at any time);

(l) an ERISA Event shall have occurred that, in the opinion of the Required Lenders, when taken together with all other ERISA Events that have occurred, would reasonably be expected to result in a Material Adverse Effect;

(m) a Change in Control shall occur; or

(n) the Guarantee contained in Article VII herein shall cease, for any reason, to be in full force and effect in any material respect or any Credit Party shall so assert;

then, and in every such event (other than an event with respect to the Credit Parties described in clause (h) or (i) of this Article), and at any time thereafter during the continuance of such event, the Administrative Agent may, and at the request of the Required Lenders shall, by notice to the Borrower, declare the Loans then outstanding to be due and payable in whole (or in part, in which case any principal not so declared to be due and payable may thereafter be declared to be due and payable), and thereupon the principal of the Loans so declared to be due and payable, together with accrued interest thereon and all fees and other Obligations of the Credit Parties accrued hereunder, shall become due and payable immediately, without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Credit Parties; and in case of any event with respect to the Credit Parties described in clause (h) or (i) of this Article, the principal of the Loans then outstanding, together with accrued interest thereon and all fees and other Obligations of the Credit Parties accrued hereunder, shall automatically become due and payable, without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Credit Parties.

ARTICLE IX

THE ADMINISTRATIVE AGENT

Each of the Lenders hereby irrevocably appoints the Administrative Agent as its agent and authorizes the Administrative Agent to take such actions on its behalf and to exercise such powers as are delegated to the Administrative Agent by the terms hereof, together with such actions and powers as are reasonably incidental thereto.

The bank serving as the Administrative Agent hereunder shall have the same rights and powers in its capacity as a Lender as any other Lender and may exercise the same as though it were not the Administrative Agent, and such bank and its Affiliates may accept deposits from, lend money to and generally engage in any kind of business with the Borrower or any Subsidiary or other Affiliate thereof as if it were not the Administrative Agent hereunder.

The Administrative Agent shall not have any duties or obligations except those expressly set forth herein. Without limiting the generality of the foregoing, (a) the Administrative Agent shall not be subject to any fiduciary or other implied duties, regardless of whether a Default has occurred and is continuing, (b) the Administrative Agent shall not have any duty to take any discretionary action or exercise any discretionary powers, except discretionary rights and powers expressly contemplated hereby that the Administrative Agent is required to exercise in writing by the Required Lenders, and (c) except as expressly set forth herein, the Administrative Agent shall not have any duty to disclose, and shall not be liable for the failure to disclose, any information relating to any Credit Party or any Subsidiary that is communicated to or obtained by the bank serving as Administrative Agent or any of its Affiliates in any capacity. The Administrative Agent shall not be liable for any action taken or not taken by it with the consent or at the request of the Required Lenders (or when expressly required hereby, all the Lenders) or in the absence of its own gross negligence or willful misconduct. The Administrative Agent shall be deemed not to have knowledge of any Default unless and until written notice thereof is given to the Administrative Agent by any Credit Party or a Lender, and the Administrative Agent shall not be responsible for or have any duty to ascertain or inquire into (i) any statement, warranty or representation made in or in connection with this Agreement, (ii) the contents of any certificate, report or other document delivered hereunder or in connection herewith, (iii) the performance or observance of any of the covenants, agreements or other terms or conditions set forth herein, (iv) the validity, enforceability, effectiveness or genuineness of this Agreement or any other agreement, instrument or document, or (v) the satisfaction of any condition set forth in Article IV or elsewhere herein, other than to confirm receipt of items expressly required to be delivered to the Administrative Agent.

The Administrative Agent shall be entitled to rely upon, and shall not incur any liability for relying upon, any notice, request, certificate, consent, statement, instrument, document or other writing believed by it to be genuine and to have been signed or sent by the proper Person. The Administrative Agent also may rely upon any statement made to it orally or by telephone and believed by it to be made by the proper Person, and shall not incur any liability for relying thereon. The Administrative Agent may consult with legal counsel (who may be counsel for any Credit Party), independent accountants and other experts selected by it, and shall not be liable for any action taken or not taken by it in accordance with the advice of any such counsel, accountants or experts.

The Administrative Agent may perform any and all of its duties and exercise its rights and powers by or through any one or more sub-agents appointed by the Administrative Agent. The Administrative Agent and any such sub-agent may perform any and of all its duties and exercise its rights and powers through their respective Related Parties. The exculpatory provisions of the preceding paragraphs shall apply to any such sub-agent and to the Related Parties of the Administrative Agent and any such sub-agent, and shall apply to their respective activities in connection with the syndication of the credit facilities provided for herein as well as activities as Administrative Agent.

Subject to the appointment and acceptance of a successor Administrative Agent as provided in this paragraph, the Administrative Agent may resign at any time by notifying the Lenders and the Borrower. Upon any such resignation, the Required Lenders shall have the right, with the consent of the Borrower so long as no Event of Default under Section 8(a), 8(b) or 8(i) shall have occurred and be continuing (which consent shall not be unreasonably withheld), to appoint a successor. If no successor shall have been so appointed by the Required Lenders and shall have accepted such appointment within 30 days after the retiring Administrative Agent gives notice of its resignation, then the retiring Administrative Agent may, on behalf of the Lenders, appoint a successor Administrative Agent which shall be a bank with an office in New York, New York, or an Affiliate of any such bank. Upon the acceptance of its appointment as Administrative Agent hereunder by a successor, such successor shall succeed to and become vested with all the rights, powers, privileges and duties of the retiring Administrative Agent, and the retiring Administrative Agent shall be discharged from its duties and obligations hereunder. The fees payable by the Borrower to a successor Administrative Agent shall be the same as those payable to its predecessor unless otherwise agreed between the Borrower and such successor. After the Administrative Agent’s resignation hereunder, the provisions of this Article and Section 10.3 shall continue in effect for its benefit in respect of any actions taken or omitted to be taken by it while it was acting as Administrative Agent.

Each Lender acknowledges that it has, independently and without reliance upon the Administrative Agent or any other Lender and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Lender also acknowledges that it will, independently and without reliance upon the Administrative Agent or any other Lender and based on such documents and information as it shall from time to time deem appropriate, continue to make its own decisions in taking or not taking action under or based upon this Agreement, any related agreement or any document furnished hereunder or thereunder.

Notwithstanding anything to the contrary contained in this Agreement, the parties hereto hereby agree that no agent (other than the Administrative Agent) shall have any rights, duties or responsibilities in its capacity as agent hereunder and that no agent (other than the Administrative Agent) shall have the authority to take any action hereunder in its capacity as such.

ARTICLE X

MISCELLANEOUS

SECTION 10.1. Notices. Except in the case of notices and other communications expressly permitted to be given by telephone, all notices and other communications provided for herein shall be in writing and shall be delivered by hand or overnight courier service, mailed by certified or registered mail or sent by telecopy, as follows:

(a) if to the Borrower or the Guarantor, to it at One H&R Block Way, Kansas City, Missouri 64105, Attention of Becky Shulman (Telecopy No. (816) 854-8043), David Staley (Telecopy No. (816) 854-8043) and Andrew Somora (Telecopy No. (816) 802-1043);

(b) if to the Administrative Agent, to HSBC Bank USA, National Association, Agency Services Group, One HSBC Center, Floor 26, Buffalo, NY 14203, Attention of Donna Riley (Telecopy No. (716) 841-0269), with a copy to HSBC Bank USA, National Association, 452 Fifth Avenue, New York, NY 10018, Attention of Peter Nealon (Telecopy No. (212) 525-2479); and

(c) if to any Lender, to it at its address (or telecopy number) set forth in its Administrative Questionnaire.

Any party hereto may change its address or telecopy number for notices and other communications hereunder by notice to the other parties hereto. All notices and other communications given to any party hereto in accordance with the provisions of this Agreement shall be deemed to have been given on the date of receipt. Notices and other communications to the Lenders hereunder may be posted to Intralinks or a similar website or delivered by electronic communications pursuant to procedures approved by the Administrative Agent; provided that the foregoing shall not apply to notices pursuant to Section 2 unless otherwise agreed by the Administrative Agent and the applicable Lender. The Administrative Agent, the Borrower or the Guarantor may, in its discretion, agree to accept notices and other communications to it hereunder by electronic communications pursuant to procedures approved by it; provided that approval of such procedures may be limited to particular notices or communications.

SECTION 10.2. Waivers; Amendments. (a) No failure or delay by the Administrative Agent or any Lender in exercising any right or power hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such right or power, or any abandonment or discontinuance of steps to enforce such a right or power, preclude any other or further exercise thereof or the exercise of any other right or power. The rights and remedies of the Administrative Agent and the Lenders hereunder are cumulative and are not exclusive of any rights or remedies that they would otherwise have. No waiver of any provision of this Agreement or consent to any departure by the Credit Parties therefrom shall in any event be effective unless the same shall be permitted by paragraph (b) of this Section, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. Without limiting the generality of the foregoing, the making of a Loan shall not be construed as a waiver of any Default, regardless of whether the Administrative Agent or any Lender may have had notice or knowledge of such Default at the time.

(b) Neither this Agreement nor any provision hereof may be waived, amended or modified except pursuant to an agreement or agreements in writing entered into by the Credit Parties and the Required Lenders or by the Credit Parties and the Administrative Agent with the consent of the Required Lenders; provided that no such agreement shall (i) increase the Commitment of any Lender without the written consent of such Lender, (ii) reduce the principal amount of any Loan or reduce the

rate of interest thereon, or reduce any fees payable hereunder, without the written consent of each Lender affected thereby, (iii) postpone the scheduled date of payment of the principal amount of any Loan, or any interest thereon, or any fees payable hereunder, or reduce the amount of, waive or excuse any such payment, without the written consent of each Lender affected thereby, (iv) change Section 2.16(b) or (c) in a manner that would alter the pro rata sharing of payments required thereby, without the written consent of each Lender, (v) release the guarantee contained in Article VII, without the written consent of each Lender or (vi) change any of the provisions of this Section or the definition of "Required Lenders" or any other provision hereof specifying the number or percentage of Lenders required to waive, amend or modify any rights hereunder or make any determination or grant any consent hereunder, without the written consent of each Lender; provided, further, that no such agreement shall amend, modify or otherwise affect the rights or duties of the Administrative Agent hereunder without the prior written consent of the Administrative Agent.

SECTION 10.3. Expenses; Indemnity; Damage Waiver. (a) The Borrower shall pay (i) all reasonable and documented out-of-pocket expenses incurred by the Administrative Agent and its Affiliates, including the reasonable and documented fees, charges and disbursements of counsel for the Administrative Agent, in connection with the syndication of the credit facilities provided for herein, the preparation and administration of this Agreement and any amendments, modifications or waivers of the provisions hereof (whether or not the transactions contemplated hereby or thereby shall be consummated) and (ii) all reasonable and documented out-of-pocket expenses incurred by the Administrative Agent, or any Lender, including the reasonable and documented fees, charges and disbursements of any counsel for the Administrative Agent, or any Lender, in connection with the enforcement or protection of its rights in connection with this Agreement, including its rights under this Section, or in connection with the Loans made hereunder, including in connection with any workout, restructuring or negotiations in respect thereof.

(b) The Credit Parties shall jointly and severally indemnify the Administrative Agent and each Lender, and each Related Party of any of the foregoing Persons (each such Person being called an "Indemnitee"), against, and hold each Indemnitee harmless from, any and all losses, claims, damages, liabilities and related expenses, including the fees, charges and disbursements of any counsel for any Indemnitee, incurred by or asserted against any Indemnitee arising out of, in connection with, or as a result of (i) the execution or delivery of this Agreement or any agreement or instrument contemplated hereby, the performance by the parties hereto of their respective obligations hereunder or the consummation of the Transactions or any other transactions contemplated hereby, (ii) any Loan or the use of the proceeds therefrom, (iii) any actual or alleged presence or release of Hazardous Materials on or from any property owned or operated by the Credit Parties or any Subsidiaries, or any Environmental Liability related in any way to the Credit Parties or any Subsidiaries, or (iv) any actual or prospective claim, litigation, investigation or proceeding relating to any of the foregoing, whether based on contract, tort or any other theory and regardless of whether any Indemnitee is a party thereto; provided that such indemnity shall not be available to the extent that such losses, claims, damages, liabilities or related expenses are determined by a court of competent jurisdiction by final and nonappealable judgment to have resulted from the gross negligence or willful misconduct of any Indemnitee or any of its Related Parties.

(c) To the extent that any Credit Party fails to pay any amount required to be paid by it to the Administrative Agent under paragraph (a) or (b) of this Section, each Lender severally agrees to pay to the Administrative Agent such Lender's Applicable Percentage (determined as of the time that the applicable unreimbursed expense or indemnity payment is sought) of such unpaid amount; provided that the unreimbursed expense or indemnified loss, claim, damage, liability or related expense, as the case may be, was incurred by or asserted against the Administrative Agent in its capacity as such. The

Administrative Agent shall have the right to deduct any amount owed to it by any Lender under this paragraph (c) from any payment made by it to such Lender hereunder.

(d) To the extent permitted by applicable law, the Credit Parties shall not assert, and hereby waive, any claim against any Indemnitee, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Agreement or any agreement or instrument contemplated hereby, the Transactions, any Loan or the use of the proceeds thereof.

(e) All amounts due under this Section shall be payable promptly after written demand therefor.

SECTION 10.4. Successors and Assigns. (a) The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns permitted hereby, except that no Credit Party may assign or otherwise transfer any of its rights or obligations hereunder without the prior written consent of each Lender (and any attempted assignment or transfer by any Credit Party without such consent shall be null and void). Nothing in this Agreement, expressed or implied, shall be construed to confer upon any Person (other than the parties hereto, their respective successors and assigns permitted hereby and, to the extent expressly contemplated hereby, the Related Parties of each of the Administrative Agent and the Lenders) any legal or equitable right, remedy or claim under or by reason of this Agreement,

(b) Any Lender may assign to one or more assignees all or a portion of its rights and obligations under this Agreement (including all or a portion of its Loan); provided that (i) each of the Borrower and the Administrative Agent must give its prior written consent to such assignment (which consent shall not be unreasonably withheld), (ii) except in the case of an assignment to a Lender or an Affiliate of a Lender or an assignment of the entire remaining amount of the assigning Lender's Loan, the amount of the Loan of the assigning Lender subject to each such assignment (determined as of the date the Assignment and Acceptance with respect to such assignment is delivered to the Administrative Agent) shall not be less than $5,000,000 unless each of the Borrower and the Administrative Agent otherwise consent, (iii) each partial assignment shall be made as an assignment of a proportionate part of all the assigning Lender's rights and obligations under this Agreement, (iv) the parties to each assignment shall execute and deliver to the Administrative Agent an Assignment and Acceptance, together with a processing and recordation fee of $3,500, and (v) the assignee, if it shall not be a Lender, shall deliver to the Administrative Agent an Administrative Questionnaire; provided, further, that any consent of the Borrower otherwise required under this paragraph shall not be required if an Event of Default has occurred and is continuing. Upon acceptance and recording pursuant to paragraph (d) of this Section, from and after the effective date specified in each Assignment and Acceptance, the assignee thereunder shall be a party hereto and, to the extent of the interest assigned by such Assignment and Acceptance, have the rights and obligations of a Lender under this Agreement, and the assigning Lender thereunder shall, to the extent of the interest assigned by such Assignment and Acceptance, be released from its obligations under this Agreement (and, in the case of an Assignment and Acceptance covering all of the assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto but shall continue to be entitled to the benefits of Sections 2.13,2.14, 2.15 and 10.3). Any assignment or transfer by a Lender of rights or obligations under this Agreement that does not comply with this paragraph shall be treated for purposes of this Agreement as a sale by such Lender of a participation in such rights and obligations in accordance with paragraph (e) of this Section.

(c) The Administrative Agent, acting for this purpose as an agent of the Borrower, shall maintain at one of its offices in The City of New York a copy of each Assignment and Acceptance delivered to it and a register for the recordation of the names and addresses of the Lenders, and the

principal amount of the Loans owing to each Lender pursuant to the terms hereof from time to time (the "Register"). The entries in the Register shall be conclusive, and each Credit Party, the Administrative Agent and the Lenders may treat each Person whose name is recorded in the Register pursuant to the terms hereof as a Lender hereunder for all purposes of this Agreement, notwithstanding notice to the contrary.

(d) Upon its receipt of a duly completed Assignment and Acceptance executed by an assigning Lender and an assignee, the assignee's completed Administrative Questionnaire (unless the assignee shall already be a Lender hereunder), the processing and recordation fee referred to in paragraph (b) of this Section and any written consent to such assignment required by paragraph (b) of this Section, the Administrative Agent shall accept such Assignment and Acceptance and record the information contained therein in the Register. No assignment shall be effective for purposes of this Agreement unless it has been recorded in the Register as provided in this paragraph.

(e) Any Lender may, without the consent of any Credit Party or the Administrative Agent, sell participations to one or more banks or other entities (a "Participant") in all or a portion of such Lender's rights and obligations under this Agreement (including all or a portion of its Loan); provided that (i) such Lender's obligations under this Agreement shall remain unchanged, (ii) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations and (iii) the Credit Parties, the Administrative Agent and the other Lenders shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement. Any agreement or instrument pursuant to which a Lender sells such a participation shall provide that such Lender shall retain the sole right to enforce this Agreement and to approve any amendment, modification or waiver of any provision of this Agreement; provided that such agreement or instrument may provide that such Lender will not, without the consent of the Participant, agree to any amendment, modification or waiver described in the first proviso to Section 10.2(b) that affects such Participant. Subject to paragraph (f) of this Section, the Borrower agrees that each Participant shall be entitled to the benefits of Sections 2.13, 2.14 and 2.15 to the same extent as if it were a Lender and had acquired its interest by assignment pursuant to paragraph (b) of this Section.

(f) A Participant shall not be entitled to receive any greater payment under Section 2.13 or 2.15 than the applicable Lender would have been entitled to receive with respect to the participation sold to such Participant, unless the sale of the participation to such Participant is made with the Borrower's prior written consent. A Participant that would be a Foreign Lender if it were a Lender shall not be entitled to the benefits of Section 2.15 unless the Borrower is notified of the participation sold to such Participant and such Participant agrees, for the benefit of the Borrower, to comply with Section 2.15(e) as though it were a Lender.

(g) Any Lender may at any time pledge or assign a security interest in all or any portion of its rights under this Agreement to secure obligations of such Lender, including any such pledge or assignment to a Federal Reserve Bank, and this Section shall not apply to any such pledge or assignment of a security interest; provided that no such pledge or assignment of a security interest shall release a Lender from any of its obligations hereunder or substitute any such assignee for such Lender as a party hereto.

(h) Notwithstanding anything to the contrary contained herein, any Lender (a "Granting Lender") may grant to a special purpose funding vehicle (an "SPC"). identified as such in writing from time to time by the Granting Lender to the Administrative Agent and the Borrower, the option to provide to the Borrower all or any part of any Loan that such Granting Lender would otherwise be obligated to make to the Borrower pursuant to this Agreement; provided that (i) nothing herein shall constitute a commitment by any SPC to make any Loan and (ii) if an SPC elects not to exercise such

option or otherwise fails to provide all or any part of such Loan, the Granting Lender shall be obligated to make such Loan pursuant to the terms hereof. The making of a Loan by an SPC hereunder shall utilize the Commitment of the Granting Lender to the same extent, and as if, such Loan were made by such Granting Lender. Each party hereto hereby agrees that no SPC shall be liable for any indemnity or similar payment obligation under this Agreement (all liability for which shall remain with the Granting Lender). In furtherance of the foregoing, each party hereto hereby agrees (which agreement shall survive the termination of this Agreement) that, prior to the date that is one year and one day after the payment in full of all outstanding commercial paper or other indebtedness of any SPC, it will not institute against, or join any other person in instituting against, such SPC any bankruptcy, reorganization, arrangement, insolvency or liquidation proceedings under the laws of the United States or any state thereof. In addition, notwithstanding anything to the contrary in this Section 10.4(h), any SPC may (A) with notice to, but without the prior written consent of, the Borrower and the Administrative Agent and without paying any processing fee therefor, assign all or a portion of its Loan to the Granting Lender, or with the prior written consent of the Borrower and the Administrative Agent (which consent shall not be unreasonably withheld) to any financial institutions providing liquidity and/or credit support to or for the account of such SPC to support the funding or maintenance of Loans, and (B) disclose on a confidential basis any non-public information relating to its Loan to any rating agency, commercial paper dealer or provider of any surety, guarantee or credit or liquidity enhancement to such SPC; provided that non-public information with respect to the Borrower may be disclosed only with the Borrower's consent which will not be unreasonably withheld. This paragraph (h) may not be amended without the written consent of any SPC with a Loan outstanding at the time of such proposed amendment. An SPC shall not be entitled to receive any greater payment under Section 2.13 or 2.15 than the applicable Granting Lender would have been entitled to receive under such Sections if the Granting Lender had made the relevant credit extension.

SECTION 10.5. Survival. All covenants, agreements, representations and warranties made by the Credit Parties herein and in the certificates or other instruments delivered in connection with or pursuant to this Agreement shall be considered to have been relied upon by the other parties hereto and shall survive the execution and delivery of this Agreement and the making of any Loans regardless of any investigation made by any such other party or on its behalf and notwithstanding that the Administrative Agent or any Lender may have had notice or knowledge of any Default or incorrect representation or warranty at the time any credit is extended hereunder, and shall continue in full force and effect as long as the principal of or any accrued interest on any Loan or any fee or any other amount payable under this Agreement is outstanding and unpaid. The provisions of Sections 2.13, 2.14,2.15 and 10.3 and Article IX shall survive and remain in full force and effect regardless of the consummation of the transactions contemplated hereby, the repayment of the Loans or the termination of this Agreement or any provision hereof.

SECTION 10.6. Counterparts; Integration; Effectiveness. This Agreement may be executed in counterparts (and by different parties hereto on different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. This Agreement and any separate letter agreements with respect to fees payable to the Administrative Agent constitute the entire contract among the parties relating to the subject matter hereof and supersede any and all previous agreements and understandings, oral or written, relating to the subject matter hereof. This Agreement shall become effective when it shall have been executed by the Administrative Agent and when the Administrative Agent shall have received counterparts hereof which, when taken together, bear the signatures of each of the other parties hereto, and thereafter shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns. Delivery of an executed counterpart of a signature page of this Agreement by telecopy shall be effective as delivery of a manually executed counterpart of this Agreement.

SECTION 10.7. Severability. Any provision of this Agreement held to be invalid, illegal or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such invalidity, illegality or unenforceability without affecting the validity, legality and enforceability of the remaining provisions hereof; and the invalidity of a particular provision in a particular jurisdiction shall not invalidate such provision in any other jurisdiction.

SECTION 10.8. Right of Setoff. If an Event of Default shall have occurred and be continuing, each Lender is hereby authorized at any time and from time to time, to the fullest extent permitted by law, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any tune held and other indebtedness at any time owing by such Lender to or for the credit or the account of either Credit Party against any of and all the obligations of such Credit Party now or hereafter existing under this Agreement held by such Lender, irrespective of whether or not such Lender shall have made any demand under this Agreement and although such obligations may be unmatured. The rights of each Lender under this Section are in addition to other rights and remedies (including other rights of setoff) which such Lender may have.

SECTION 10.9. Governing Law; Jurisdiction; Consent to Service of Process. (a) This Agreement shall be construed in accordance with and governed by the law of the State of New York.

(b) Each Credit Party hereby irrevocably and unconditionally submits, for itself and its property, to the nonexclusive jurisdiction of the Supreme Court of the State of New York sitting in New York County and of the United States District Court of the Southern District of New York, and any appellate court from any thereof, in any action or proceeding arising out of or relating to this Agreement, or for recognition or enforcement of any judgment, and each of the parties hereto hereby irrevocably and unconditionally agrees that all claims in respect of any such action or proceeding may be heard and determined in such New York State or, to the extent permitted by law, in such Federal court. Each of the parties hereto agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Nothing in this Agreement shall affect any right that the Administrative Agent or any Lender may otherwise have to bring any action or proceeding relating to this Agreement against any Credit Party or its properties in the courts of any jurisdiction.

(c) Each Credit Party hereby irrevocably and unconditionally waives, to the fullest extent it may legally and effectively do so, any objection which it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to this Agreement in any court referred to in paragraph (b) of this Section. Each of the parties hereto hereby irrevocably waives, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

(d) Each party to this Agreement irrevocably consents to service of process in the manner provided for notices in Section 10.1. Nothing in this Agreement will affect the right of any party to this Agreement to serve process in any other manner permitted by law.

SECTION 10.10. WAIVER OF JURY TRIAL. EACH PARTY HERETO HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION,

SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

SECTION 10.11. Headings. Article and Section headings and the Table of Contents used herein are for convenience of reference only, are not part of this Agreement and shall not affect the construction of, or be taken into consideration in interpreting, this Agreement.

SECTION 10.12. Confidentiality. Each of the Administrative Agent and the Lenders agrees to maintain the confidentiality of the Information (as defined below), except that Information may be disclosed (a) to its and its Affiliates' directors, officers, employees and agents, including accountants, legal counsel and other advisors (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such Information and instructed to keep such Information confidential), (b) to the extent requested by any regulatory authority, (c) to the extent required by applicable laws or regulations or by any subpoena or similar legal process, (d) to any other party to this Agreement, (e) in connection with the exercise of any remedies hereunder or any suit, action or proceeding relating to this Agreement or the enforcement of rights hereunder, (f) subject to an agreement containing provisions substantially the same as those of this Section, to any assignee of or Participant in, or any prospective assignee of or Participant in, any of its rights or obligations under this Agreement, (g) with the consent of the Borrower or (h) to the extent such Information (i) becomes publicly available other than as a result of a breach of this Section by it or (ii) becomes available to the Administrative Agent or any Lender on a nonconfidential basis from a source other than any Credit Party. For the purposes of this Section, "Information" means all information received from any Credit Party relating to any Credit Party or its business, other than any such information that is available to the Administrative Agent or any Lender on a nonconfidential basis prior to disclosure by such Credit Party; provided that, in the case of information received from any Credit Party after the date hereof, such information is clearly identified at the time of delivery as confidential. Any Person required to maintain the confidentiality of Information as provided in this Section shall be considered to have complied with its obligation to do so if such Person has exercised the same degree of care to maintain the confidentiality of such Information as such Person would accord to its own confidential information.

SECTION 10.13. Interest Rate Limitation. Notwithstanding anything herein to the contrary, if at any time the interest rate applicable to any Loan, together with all fees, charges and other amounts which are treated as interest on such Loan under applicable law (collectively the "Charges"), shall exceed the maximum lawful rate (the "Maximum Rate") which may be contracted for, charged, taken, received or reserved by the Lender holding such Loan in accordance with applicable law, the rate of interest payable in respect of such Loan hereunder, together with all Charges payable in respect thereof, shall be limited to the Maximum Rate and, to the extent lawful, the interest and Charges that would have been payable in respect of such Loan but were not payable as a result of the operation of this Section shall be cumulated and the interest and Charges payable to such Lender in respect of other periods shall be increased (but not above the Maximum Rate therefor) until such cumulated amount, together with interest thereon at the Federal Funds Effective Rate to the date of repayment, shall have been received by such Lender.

SECTION 10.14. USA Patriot Act.

Each Lender hereby notifies the Borrower that pursuant to the requirements of the USA Patriot Act (Title III of Pub. L. 107-56 (signed into law October 26,2001)) (the "Act"), it is required to obtain, verify and record information that identifies the Borrower, which information includes the name and address of the Borrower and other information that will allow such Lender to identify the Borrower in accordance with the Act.

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

BLOCK FINANCIAL CORPORATION

By: /s/ Becky S. Shulman
Title: SVP & Treasurer

H&R BLOCK, INC.

By: /s/ William L. Trubeck
Title: EVP/CFO

HSBC BANK USA, NATIONAL ASSOCIATION, as Administrative Agent and as a Lender

By: /s/ Peter G. Nealon
Title: PETER G. NEALON
MANAGING DIRECTOR

BNP PARIBAS,
as a Lender

By: /s/ Curtis Price
Title: Managing Director

By: /s/ Christopher Grumboski
Title: Director

SCHEDULE 2.1

COMMITMENTS

Lender	Commitment
HSBC Bank USA, National Association	$250,000,000
BNP Paribas	$250,000,000
Total	**$500,000,000**

SCHEDULE 3.4(a)

Guarantee Obligations

None.

SCHEDULE 3.6

Disclosed Matters

None.

SCHEDULE 3.13

Subsidiaries

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

	Name	Jurisdiction
1)	H&R Block Group, Inc.	Delaware
2)	HRB Management, Inc.	Missouri
3)	H&R Block Tax and Financial Services Limited	United Kingdom
4)	Companion Insurance, Ltd.	Bermuda
5)	H&R Block Services, Inc.	Missouri
6)	H&R Block Tax Services, Inc.	Missouri
7)	HRB Partners, Inc.	Delaware
8)	HRB Texas Enterprises, Inc.	Missouri
9)	H&R Block and Associates, L.P.	Delaware
10)	H&R Block Canada, Inc.	Canada
11)	Financial Stop, Inc.	British Columbia
12)	H&R Block Canada Financial Services, Inc.	Canada
13)	H&R Block (Nova Scotia) Incorporated	Nova Scotia
14)	H&R Block Enterprises, Inc.	Missouri
15)	H&R Block Eastern Enterprises, Inc.	Missouri
16)	The Tax Man, Inc.	Massachusetts
17)	HRB Royalty, Inc,	Delaware
18)	H&R Block Limited.	New South Wales
19)	West Estate Investors, LLC	Missouri
20)	H&R Block Global Solutions (Hong Kong) Limited	Hong Kong
21)	Express Tax Services, Inc.	Delaware
22)	H&R Block Tax and Business Services, Inc.	Delaware
23)	Tax Works, Inc.	Delaware
24)	H&R Block Tax Institute, LLC	Missouri
25)	Block Financial Corporation	Delaware
26)	Option One Mortgage Corporation	California

	Name	Jurisdiction
27)	Option One Mortgage Acceptance Corporation	Delaware
28)	Option One Mortgage Securities Corp.	Delaware
29)	Option One Mortgage Securities II Corp.	Delaware
30)	Premier Trust Deed Services, Inc.	California
31)	Premier Mortgage Services of Washington, Inc.	Washington
32)	H&R Block Mortgage Corporation	Massachusetts
33)	Option One Insurance Agency, Inc. (d/b/a H&R Block Insurance Agency)	California
34)	Woodbridge Mortgage Acceptance Corporation	Delaware
35)	Option One Loan Warehouse Corporation	Delaware
36)	Option One Advance Corporation	Delaware
37)	AcuLink Mortgage Solutions, LLC	Florida
38)	AcuLink of Alabama, LLC	Alabama
39)	Option One Mortgage Corporation (India) Pvt Ltd	India
40)	Option One Mortgage Capital Corporation	Delaware
41)	First Option Asset Management Services, LLC	California
42)	Premier Property Tax Services, LLC	California
43)	First Option Asset Management Services, Inc.	California
44)	Companion Mortgage Corporation	Delaware
45)	Franchise Partner, Inc.	Nevada
46)	HRB Financial Corporation	Michigan
47)	H&R Block Financial Advisors, Inc.	Michigan
48)	OLDE Discount of Canada	Canada
49)	H&R Block Insurance Agency of Massachusetts, Inc.	Massachusetts
50)	HRB Property Corporation	Michigan
51)	HRB Realty Corporation	Michigan
52)	4230 West Green Oaks, Inc.	Michigan
53)	Financial Marketing Services, Inc.	Michigan
54)	2430472 Nova Scotia Co.	Nova Scotia
55)	H&R Block Digital Tax Solutions, LLC	Delaware
56)	TaxNet Inc.	California
57)	H&R Block Bank	Federal

	Name	Jurisdiction
58)	BFC Transactions, Inc.	Delaware
59)	RSM McGladrey Business Services, Inc.	Delaware
60)	RSM McGladrey, Inc.	Delaware
61)	RSM McGladrey Financial Process Outsourcing, L.L.C.	Minnesota
62)	RSM McGladrey Financial Process Outsourcing India Pvt. Ltd (70% ownership)	India
63)	Birchtree Financial Services, Inc.	Oklahoma
64)	Birchtree Insurance Agency, Inc.	Missouri
65)	Pension Resources, Inc.	Illinois
66)	FM Business Services, Inc. (d/b/a Freed Maxick ABL Services)	Delaware
67)	O'Rourke Career Connections, LLC (50% ownership)	California
68)	Credit Union Jobs, LLC	California
69)	RSM McGladrey TBS, LLC	Delaware
70)	PDI Global, Inc.	Delaware
71)	RSM Equico, Inc.	Delaware
72)	RSM Equico Capital Markets, LLC	Delaware
73)	Equico, Inc.	California
74)	Equico Europe Limited	United Kingdom
75)	RSM Equico Canada, Inc.	Canada
76)	RSM McGladrey Business Solutions, Inc. (d/b/a RSM McGladrey Retirement Resources)	Delaware
77)	CFS-McGladrey, LLC (50% ownership)	Massachusetts
78)	Creative Financial Staffing of Western Washington, LLC (50% ownership)	Massachusetts
79)	Cfstaffing, Ltd. (25% ownership)	British Columbia
80)	RSM McGladrey Insurance Services, Inc.	Delaware
81)	RSM McGladrey Employer Services, Inc.	Georgia
82)	RSM Employer Services Agency, Inc.	Georgia
83)	RSM Employer Services Agency of Florida, Inc.	Florida
84)	H&R Block (India) Pvt. Ltd.	India
85)	RSM (Bahamas) Global, Ltd.	Bahamas

EXHIBIT A

FORM OF
ASSIGNMENT AND ACCEPTANCE

Reference is made to the $500,000,000 Bridge Credit and Guarantee Agreement, dated as of April 16,2007 (as amended, supplemented or otherwise modified from time to time, the "Credit Agreement"), among Block Financial Corporation (the "Borrower"), H&R Block, Inc., the Lenders party thereto and HSBC Bank USA, National Association, as administrative agent for the Lenders (in such capacity, the "Agent"). Unless otherwise defined herein, terms defined in the Credit Agreement and used herein shall have the meanings given to them in the Credit Agreement.

The Assignor identified on Schedule 1 hereto (the "Assignor") and the Assignee identified on Schedule 1 hereto (the "Assignee") agree as follows:

1. The Assignor hereby irrevocably sells and assigns to the Assignee without recourse to the Assignor, and the Assignee hereby irrevocably purchases and assumes from the Assignor without recourse to the Assignor, as of the Effective Date (as defined below), the interest described in Schedule 1 hereto (the "Assigned Interest") in and to the Assignor's rights and obligations under the Credit Agreement with respect to those credit facilities contained in the Credit Agreement as are set forth on Schedule 1 hereto (individually, an "Assigned Facility"; collectively, the "Assigned Facilities"), in a principal amount for each Assigned Facility as set forth on Schedule 1 hereto.

2. The Assignor (a) makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with the Credit Agreement or with respect to the execution, legality, validity, enforceability, genuineness, sufficiency or value of the Credit Agreement, or any other instrument or document furnished pursuant thereto, other than that the Assignor has not created any adverse claim, lien or encumbrance upon the interest being assigned by it hereunder and that such interest is free and clear of any such adverse claim, lien or encumbrance; (b) makes no representation or warranty and assumes no responsibility with respect to the financial condition of any Credit Party, any of their respective Subsidiaries or any other obligor or the performance or observance by any Credit Party, any of their Subsidiaries or any other obligor of any of their respective obligations under the Credit Agreement or any other instrument or document furnished pursuant hereto or thereto; and (c) attaches any promissory notes held by it evidencing the Assigned Facilities and (i) requests that the Agent, upon request by the Assignee, exchange the attached promissory notes for a new promissory note or promissory notes payable to the Assignee and (ii) if the Assignor has retained any interest in the Assigned Facility, requests that the Agent exchange the attached promissory notes for a new promissory note or promissory notes payable to the Assignor, in each case in amounts which reflect the assignment being made hereby (and after giving effect to any other assignments which have become effective on the Effective Date).

3. The Assignee (a) represents and warrants that it is legally authorized to enter into this Assignment and Acceptance; (b) confirms that it has received a copy of the Credit Agreement, together with copies of the financial statements delivered pursuant to Section 3.4 thereof and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this Assignment and Acceptance; (c) agrees that it will, independently and without reliance upon the Assignor, the Agent or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Credit Agreement or any other instrument or document furnished pursuant hereto or thereto; (d) appoints and authorizes the Agent to take such action as agent on its behalf and to exercise such powers and discretion under the Credit Agreement or any other instrument or document furnished pursuant hereto or

thereto as are delegated to the Agent by the terms thereof, together with such powers as are incidental thereto; and (e) agrees that it will be bound by the provisions of the Credit Agreement and will perform in accordance with its terms all the obligations which by the terms of the Credit Agreement are required to be performed by it as a Lender including, if it is organized under the laws of a jurisdiction outside the United States, its obligation pursuant to Section 2.15(e) of the Credit Agreement.

4. The effective date of this Assignment and Acceptance shall be the Effective Date of Assignment described in Schedule 1 hereto (the "Effective Date"). Following the execution of this Assignment and Acceptance, it will be delivered to the Agent for acceptance by it and recording by the Agent pursuant to the Credit Agreement, effective as of the Effective Date (which shall not, unless otherwise agreed to by the Agent, be earlier than five Business Days after the date of such acceptance and recording by the Agent).

5. Upon such acceptance and recording, from and after the Effective Date, the Agent shall make all payments in respect of the Assigned Interest (including payments of principal, interest, fees and other amounts) to the Assignor for amounts which have accrued to the Effective Date and to the Assignee for amounts which have accrued subsequent to the Effective Date. The Assignor and the Assignee shall make all appropriate adjustments in payments by the Agent for periods prior to the Effective Date or with respect to the making of this assignment directly between themselves.

6. From and after the Effective Date, (a) the Assignee shall be a party to the Credit Agreement and, to the extent provided in this Assignment and Acceptance, have the rights and obligations of a Lender thereunder and shall be bound by the provisions thereof and (b) the Assignor shall, to the extent provided in this Assignment and Acceptance, relinquish its rights and be released from its obligations under the Credit Agreement.

7. This Assignment and Acceptance shall be governed by and construed in accordance with the laws of the State of New York.

IN WITNESS WHEREOF, the parties hereto have caused this Assignment and Acceptance to be executed as of the date first above written by their respective duly authorized officers on Schedule 1 hereto.

Schedule 1

to Assignment and Acceptance

Name of Assignor: _____

Name of Assignee: _____

Effective Date of Assignment: _____

Principal Amount Assigned
$_____
$_____

[NAME OF ASSIGNEE]

By: _____
Title:

[NAME OF ASSIGNOR]

By: _____
Title:

Consented to and Accepted:

HSBC BANK USA, NATIONAL ASSOCIATION, as Administrative Agent

By: _____
Title:

Consented To:

BLOCK FINANCIAL CORPORATION

By: _____
Title:

EXHIBIT B-l

[FORM OF OPINION OF MAYER, BROWN, ROWE & MAW LLP]

April 16, 2007

Mayer, Brown, Rowe & Maw LLP
71 South Wacker Drive
Chicago, Illinois 60606 - 4637

Main Tel (312) 782 - 0600
Main Fax (312) 701 - 7711
www.mayerbrownrowe.com

HSBC Bank USA, National Association, as Administrative Agent,
and each other financial institution that is a party
to the Credit Agreement referred to below

Re: Bridge Credit and Guarantee Agreement dated as of April 16, 2007 among Block Financial Corporation, as Borrower, H&R Block, Inc., as Guarantor, the Lenders party thereto and HSBC Bank USA, National Association, as Administrative Agent (the "Credit Agreement")

Ladies and Gentlemen:

We have acted as special New York counsel for Block Financial Corporation, a Delaware corporation (the "Borrower"), and H&R Block, Inc., a Missouri corporation (the "Guarantor"), in connection with the above-referenced Credit Agreement. This opinion letter is rendered to you pursuant to clause (c) of Article IV of the Credit Agreement. The Borrower and the Guarantor are sometimes referred to herein as a "Credit Party" and collectively as the "Credit Parties." Capitalized terms used but not defined herein have the respective meanings given thereto in the Credit Agreement.

We have examined a copy of the Credit Agreement and conducted such investigations of law as we have deemed necessary or advisable for purposes of this opinion letter. We have not undertaken any independent investigation of any factual matter which might be relevant to this opinion letter and we have made no independent investigation of the records of, or other matters relating to, the Credit Parties or any other Person.

For the purposes of this opinion letter, we have assumed that all items submitted to us as originals are complete and authentic and all signatures thereon are genuine, and all items submitted to us as copies are complete and conform to the originals. We have also assumed, with your permission and without independent investigation of any kind, that: (i) all of the parties to the Credit Agreement (the "Parties") have been duly incorporated and are validly

existing and in good standing under the laws of their respective jurisdictions of organization; (ii) the Credit Agreement has been duly authorized, executed and delivered by all of the Parties; (iii) the execution, delivery and performance of the Credit Agreement by each Party (a) are in accordance with (and do not conflict with) the laws of such Party's jurisdiction of organization, (b) do not violate or contravene such Party's organizational documents and (c) do not violate or contravene any provision of any agreement or contract applicable to or binding upon such Party; (iv) the Credit Agreement is the legal, valid and binding obligation of each Party (other than the Credit Parties, as to which we express an opinion below); (v) there are no agreements or understandings among the Parties, written or oral, and no usage of trade or course of prior dealing among the Parties which would, in either case, define, supplement or qualify the terms of the Credit Agreement; and (vi) the representations and warranties made in the Credit Agreement by the Parties are true and accurate.

Upon the basis of the foregoing and the other assumptions and qualifications set forth below, we are of the opinion that:

1. The Credit Agreement constitutes a legal, valid and binding agreement of the Credit Parties, enforceable in accordance with its terms.

2. Based upon our review of those statutes, rules, regulations and judicial decisions which in our experience are normally applicable to or normally relevant in connection with transactions of the type provided for in the Credit Agreement, the execution and delivery by the Credit Parties of the Credit Agreement and the performance by the Credit Parties of their respective payment obligations thereunder do not and will not violate, contravene or constitute a default under any provision of any United States Federal or New York State law or regulation.

3. No order, consent, approval, license, authorization or validation of or exemption by any government or public body or authority of the State of New York is required to authorize or is required in connection with the execution, delivery and performance by the Credit Parties of the Credit Agreement.

4. The making of the Loans and the application of the proceeds thereof as provided in the Credit Agreement will not violate Regulation T, U or X of the Board of Governors of the Federal Reserve System.

Our opinions set forth above are subject to the following qualifications:

(a) We express no opinion as to any law, rule, regulation, ordinance, code or similar provision of law of any county, municipality or similar political subdivision of the State of New York or any agency or instrumentality thereof, and we express no opinion as to any law to which the Credit Parties may be subject solely as a result of your legal or regulatory status or as to any federal or state securities or "blue sky" law. Members of our Firm are admitted to practice law

in the State of New York and we express no opinion on any law other than the laws of the State of New York and the Federal law of the United States to the extent specifically set forth herein.

(b) Our opinions are subject to the effect of any applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance or similar law affecting creditors' rights generally and to the effect of general principles of equity (regardless of whether considered in a proceeding in equity or at law), including (without limitation) concepts of materiality, reasonableness, good faith and fair dealing and limitations on the availability of specific performance, injunctive relief or other equitable remedies.

(c) We express no opinion as to: (i) obligations relating to indemnification, contribution or exculpation of costs, expenses or liabilities which contravene public policy; (ii) any agreement by the Credit Parties to the subject matter jurisdiction of a United States federal court, to the waiver of the right to jury trial or to be served with process by service in a particular manner; (iii) any agreement by the Credit Parties purporting to waive any objection to the laying of venue or any claim that an action or proceeding has been brought in an inconvenient forum; (iv) the effect of the law of any jurisdiction other than the State of New York wherein any Lender may be located or wherein the enforcement of the Credit Agreement may be sought that limits the rates of interest, fees or other charges legally chargeable or collectible; or (v) whether any court outside the State of New York would honor the choice of New York law as the governing law of the Credit Agreement. Without limiting clause (iii) above, we note that (i) under NYCPLR §510 a New York State court may have discretion to transfer the place of trial and (ii) under 28 U.S.C. §1404(a) a United States District Court has discretion to transfer an action from one Federal court to another.

(d) We wish to point out that provisions of the Credit Agreement which provide that the liability of the Guarantor shall not be released or reduced by any amendment to, or any variation, release or waiver of, any obligation of the Borrower may be enforceable only to the extent such amendment, variation, release or waiver is not so material as to constitute a new contract between the parties.

(e) We express no opinion as to any provision of the Credit Agreement that authorizes the Administrative Agent or any Lender, or any purchaser of a participation interest from any party, to set off or apply any deposit, indebtedness or other property against any participation interest.

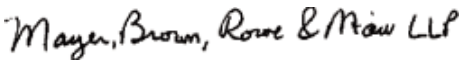
(f) We express no opinion as to: (i) provisions restricting access to legal or equitable remedies; (ii) provisions that purport to establish evidentiary standards; (iii) provisions relating to waivers, severability, contribution or delay or omission of enforcement of rights or remedies; (iv) provisions purporting to convey rights to Persons other than parties to the Credit Agreement; or (v) any provision which provides that the Credit Agreement may only be amended, waived or modified in writing.

(g) We have made no examination of any financial or accounting matters, including the ability of the Guarantor to comply with any financial covenant or the ability of any Credit Party to comply with any financial limitation on indebtedness, and we express no opinion with respect to any such matter.

The opinions expressed herein are effective only as to the date of this opinion letter. We do not assume responsibility for updating this opinion letter as of any date subsequent to the date of this opinion letter, and we assume no responsibility for advising you of (i) any changes with respect to any matters described in this opinion letter or (ii) the discovery subsequent to the date of this opinion letter of factual information not previously known to us pertaining to events occurring prior to the date of this opinion letter.

This opinion letter is rendered solely to you in connection with the above-described transactions. This opinion letter may not be relied upon by you for any other purpose, or relied upon by any other Person for any purpose, without in each case our prior written consent.

Very truly yours,



MAYER, BROWN, ROWE & MAW LLP

EXHIBIT B-2

[FORM OF OPINION OF BRYAN CAVE LLP]

Bryan Cave LLP

One Kansas City Place
1200 Mam Street, Suite 3500
Kansas City, MO 64105-2100
Tel (816) 374-3200
Fax (816) 374-3300
www.bryancave.com

Chicago
Hong Kong
Irvine
Jefferson City
Kansas City
Kuwait
Los Angeles
New York
Phoenix
Shanghai
St. Louis
Washington, DC

And Bryan Cave,
A Multinational Partnership,

London

April 16, 2007

HSBC Bank USA, National Association,
as Administrative Agent,
and each of the other financial institutions
which is a party to the Credit Agreement
referred to below

Re: Bridge Credit and Guarantee Agreement dated as of April 16, 2007, among Block Financial Corporation, as Borrower, H&R Block, Inc., as Guarantor, the Lenders party thereto and HSBC Bank USA, National Association as Administrative Agent (the "Credit Agreement")

Ladies and Gentlemen:

We have acted as special counsel to Block Financial Corporation, a Delaware corporation, as borrower (the "Borrower"), and H&R Block, Inc., a Missouri corporation, as guarantor (the "Guarantor"), in connection with the above-referenced Credit Agreement. The Borrower and the Guarantor are sometimes individually referred to herein as a "Credit Party" and are sometimes collectively referred to herein as the "Credit Parties." This opinion letter is furnished to you pursuant to clause (c) of Article IV of the Credit Agreement. Capitalized terms used herein without definition have the same meanings as in the Credit Agreement.

For purposes of this opinion letter, we have examined the following documents: (i) a copy of the Credit Agreement; (ii) copies of the certificates delivered to the Administrative Agent by the Credit Parties pursuant to clauses (d) and (e) of Article IV of the Credit Agreement; (iii) the Officer's Certificates delivered to us by the Credit Parties; (iv) a copy of the Certificate of Good Standing with respect to the Borrower issued by the Secretary of State of the State of Delaware dated April 13, 2007; (v) a copy of the Certificate of Good Standing with respect to the Guarantor issued by the Secretary of State of the State of Missouri dated April 13, 2007; and (vi) such other corporate records of the Credit Parties as we have deemed necessary or appropriate to enable us to render the opinions expressed below.

We have also examined originals or copies, certified or otherwise identified to our satisfaction, of the Articles of Incorporation or Certificate of Incorporation, as the case may be, and the bylaws of each the Credit Parties and such other corporate records, agreements and instruments of the Credit Parties, certificates of public officials and officers of the Credit Parties, and such other documents, records and

instruments, and we have made such legal and factual inquiries, as we have deemed necessary or appropriate as a basis for us to render the opinions hereinafter expressed. In our examination of the Credit Agreement and the foregoing, we have assumed the genuineness of all signatures, the legal competence and capacity of natural persons, the authenticity of documents submitted to us as originals and the conformity with authentic original documents of all documents submitted to us as copies. When relevant facts were not independently established, we have relied without independent investigation as to matters of fact upon statements of governmental officials and upon representations made in or pursuant to the Credit Agreement and certificates and statements of appropriate representatives of the Credit Parties.

In connection herewith, we have assumed that, other than with respect to the Credit Parties, all of the documents referred to in this opinion letter have been duly authorized by, have been duly executed and delivered by, and constitute the valid, binding and enforceable obligations of, all of the parties to such documents, all of the signatories to such documents have been duly authorized and all such parties are duly organized and validly existing and have the power and authority (corporate or other) to execute, deliver and perform such documents.

Based upon the foregoing and in reliance thereon, and subject to the assumptions, comments, qualifications, limitations and exceptions set forth herein, we are of the opinion that:

1. Based solely on recently dated good standing certificate from the Secretary of State of the State of Delaware, the Borrower is validly existing as a corporation, in good standing under the laws of the State of Delaware. Based solely on recently dated good standing certificate from the Secretary of State of the State of Missouri, the Guarantor is validly existing as a corporation, in good standing under the laws of the State of Missouri. Each Credit Party has all requisite corporate power to own and operate its material properties and conduct its business in all material respects as now being conducted.

2. The execution and delivery by each Credit Party of the Credit Agreement and the consummation by each Credit Party of its obligations thereunder are within each Credit Party’s corporate power and have been duly authorized by all necessary corporate action on the part of each Credit Party.

3. No consent, approval, authorization or other action by, and no notice to or filing with, any federal or Delaware or Missouri governmental authority or regulatory body is required for the due execution, delivery and consummation by each Credit Party of its obligations under the Credit Agreement, except for such consents, approvals, filings or registrations that have been obtained or made on or prior to the date hereof and are in full force and effect.

4. The Credit Agreement has been duly executed and delivered by each Credit Party.

5. The execution and delivery by each Credit Party of the Credit Agreement and the consummation by each Credit Party of its obligations thereunder do not result in (a) any violation by

either Credit Party of (i) the provisions of its Articles of Incorporation or Certificate of Incorporation, as the case may be, or its bylaws, (ii) any provision of applicable law that we, based on our experience, recognize as applicable to either Credit Party in a transaction of this type, or (iii) to our knowledge, any order, writ, judgment or decree of any U.S. federal or Delaware or Missouri court or governmental authority or regulatory body having jurisdiction over either Credit Party or any of their subsidiaries or any of their material properties, or (b) a breach or default or require the creation or imposition of any security interest or lien upon any of either Credit Party's properties pursuant to any material agreement, contract or instrument known to us to which either Credit Party is a party or by which either Credit Party is bound. For purposes of the foregoing, we have assumed that the only material agreements, contracts or instruments to which either Credit Party is a party or by which it is bound are those listed as exhibits to the Guarantor's Annual Report on Form 10-K filed with the Securities and Exchange Commission on June 30, 2006 and Quarterly Reports on Form 10-Q filed with the Securities and Exchange Commission on September 11, 2006, December 11, 2006 and March 14, 2007, respectively.

6. Neither Credit Party is an "investment company" or a company "controlled" by an "investment company" as such terms are defined in the Investment Company Act of 1940, as amended.

In addition to the assumptions, comments, qualifications, limitations and exceptions set forth above, the opinions set forth herein are further limited by, subject to and based upon the following assumptions, comments, qualifications, limitations and exceptions:

(a) Wherever this opinion letter refers to matters "known to us," or to our "knowledge," or words of similar import, such reference means that, during the course of our representation of the Credit Parties with respect to the Credit Agreement, we have requested information of the Credit Parties concerning the matter referred to and no information has come to the attention of (either as a result of such request for information or otherwise) the attorneys currently employed by our Firm devoting substantive attention or a material amount of time thereto, which has given us actual knowledge of the existence (or absence) of facts to the contrary. Except as otherwise stated herein, we have undertaken no independent investigation or verification of such matters, and no inference should be drawn to the contrary from the fact of our representation of the Credit Parties.

(b) Our opinions herein reflect only the application of applicable Missouri law, the Federal laws of the United States and, to the extent required by the foregoing opinions, the General Corporation Law of the State of Delaware. The opinions set forth herein are made as of the date hereof and are subject to, and may be limited by, future changes in the factual matters set forth herein, and we undertake no duty to advise you of the same. The opinions expressed herein are based upon the law in effect (and published or otherwise generally available) on the date hereof, and we assume no obligation to revise or supplement these opinions should such law be changed by legislative action, judicial decision or otherwise. In rendering our opinions, we have not considered, and hereby disclaim any opinion as to, the application or impact of any laws, cases, decisions, rules or regulations of any other jurisdiction, court or administrative agency.

(c) In Missouri, there is some question as to whether Article XI, Section 7, of the Missouri Constitution and Section 351.160 of the General and Business Corporation Law of Missouri ("MGBCL"), which provide that no corporation shall issue shares or bonds or other obligations for the payments of money, except for money paid, labor done or property actually received, apply to guarantees. However, Section 351.385(7) of the MGBCL provides that Missouri corporations have power to guarantee the debt and obligations of other corporations, and there is judicial precedent that a guarantee, even in the absence of consideration therefor, does not violate the constitutional prohibition. See Charter Capital Group, Inc. v. Cook, 813 S.W. 2nd 383 (Mo. App. 1991). We are aware of an unpublished opinion in which the issue was whether a corporation's guaranty was invalid under Article XI, Section 7 of the Missouri Constitution and Mo, Rev. Stat. § 351.160. According to the court's opinion, the purpose of those provisions is to insure that a corporation does not incur an obligation unless it receives reasonably equivalent consideration in return. The court did not expressly rule that a corporate guaranty could be prohibited by those provisions but found that the guarantor had received adequate consideration for its guaranty because the proceeds of the guaranteed loans were used to pay off an antecedent indebtedness of the guarantor. In re Holden Fertilizer Service, Inc., No. 89-41949-2-11, Slip Op. at 5-6 (Bankr, W.D. Mo., Sept. 20, 1990). Although the guaranty was upheld, the opinion raises the uncertainty that the Missouri fictitious indebtedness provisions would invalidate a corporate guaranty which is given without sufficient benefit to the guarantor. For purposes of this opinion, we have assumed that the Guarantor's guaranty is being given for sufficient benefit to the Guarantor.

This opinion letter is rendered only to the Administrative Agent and the Lenders and is solely for their benefit and the benefit of their permitted assignees and participants in connection with the above-described transactions. By your acceptance of this opinion letter, you agree that it may not be relied upon, circulated, quoted or otherwise referred to by the Administrative Agent, the Lenders or any permitted assignee or participant for any other purpose, or relied upon, circulated, quoted or otherwise referred to by any other person, firm or corporation for any purpose without our prior written consent in each instance.

Very truly yours,

Exhibit 10.58

SUPPLEMENTAL INDENTURE NUMBER ONE

Dated as of April 27, 2007

to the

INDENTURE

Dated as of November 1, 2003

OPTION ONE OWNER TRUST 2003-5,
as Issuer

and

WELLS FARGO BANK, N.A.
not in its individual capacity, but solely as Indenture Trustee

OPTION ONE OWNER TRUST 2003-5
MORTGAGE-BACKED NOTES

This SUPPLEMENTAL INDENTURE NUMBER ONE is made and entered into this 27th day of April, 2007 (the *"Supplemental Indenture Number One")*, by and between OPTION ONE OWNER TRUST 20.03-5, as the issuer (the *"Issuer")*, and WELLS FARGO BANK, N.A. as the indenture trustee (the *"Indenture Trustee")*, in connection with the Indenture dated as of November 1, 2003 between the above mentioned parties as previously amended or supplemented (the *"Indenture")*, and the issuance of the Option One Owner Trust 2003-5 Mortgage-Backed Notes. This amendment is made pursuant to Section 9.02 of the Indenture.

PRELIMINARY STATEMENT

WHEREAS, Section 9.02 of the Indenture provides that the Indenture may be amended by the Issuer and the Indenture Trustee with the consent of the Majority Noteholders of all Notes, for among other reasons, to add, change, eliminate any provisions thereto or modify in any manner the rights of any Noteholder thereunder; and

WHEREAS, the Indenture Trustee (as directed by the Majority Noteholder), the Majority Noteholder, the Owner Trustee and the Owner hereby waive the various notice requirements in connection with this Supplemental Indenture Number One set forth in the Indenture and the Trust Agreement; and

WHEREAS, the parties desire to amend the maturity date with respect to the Notes on the terms and conditions herein and in the other Basic Documents; and

NOW, THEREFORE, in consideration of the foregoing and of other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1. Capitalized terms used herein and not defined herein shall have the meanings assigned to such terms in the Indenture.

2. The Indenture is hereby amended by deleting the definition of "Maturity Date" in Article I and replacing it with the following:

"Maturity Date" means, with respect to the Notes, My 30, 2007.

3. Direction and Instruction.

(a) The Issuer, by signing this Supplemental Indenture Number One, hereby directs and instructs the Indenture Trustee to enter into this Supplemental Indenture Number One 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.

(b) Option One Loan Warehouse LLC (as successor-in-interest to 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 (i) this Supplemental Indenture Number One and (ii) the Second Amended and Restated Pricing Letter, dated as of the date hereof among the Issuer, the Depositor, Option One Mortgage Corporation and the Indenture Trustee, in each case 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.

4. Waivers. The Noteholder, as the sole Noteholder of 100% of the Notes issued under the Indenture, hereby consents to this Supplemental Indenture Number One, acknowledges that the substance of this Supplemental Indenture Number One may have an adverse effect on the Notes, and the Noteholder waives, and hereby directs the Indenture Trustee to waive, 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 Supplemental Indenture Number One 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 Supplemental Indenture Number One. The Owner Trustee, the Owner and the Noteholder hereby waive the requirement under Section 4.1(a) 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 Supplemental Indenture Number One.

6. Ratification of Indenture. 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 Supplemental Indenture Number One 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 Supplemental Indenture Number One.

7. Counterparts. This Supplemental Indenture Number One may be executed simultaneously in any number of counterparts, each of which counterparts shall be deemed to be an original, and such counterparts shall constitute but one and the same instrument.

8. Governing Law. This Supplemental Indenture Number One shall be construed in accordance with the laws of the State of New York and the obligations, rights and remedies of the parties hereunder shall be determined in accordance with such laws, without reference to or giving effect to its rules or principles governing conflicts of laws.

9. Severability of Provisions. If any one or more of the covenants, agreements, provisions or terms of this Supplemental Indenture Number One for any reason whatsoever shall be held invalid, then such covenants, agreements, provisions or terms shall be deemed severable from the remaining covenants, agreements, provisions or terms of this Supplemental Indenture Number One and shall in no way affect the validity or enforceability of the other provisions of this Supplemental Indenture Number One or the Indenture.

10. Successors and Assigns. The provisions of this Supplemental Indenture Number One shall be binding upon and inure to the benefit of the respective successors and assigns of the parties hereto, and all such provisions shall inure to the benefit of the Noteholder.

11. Article and Section Headings. The article and section headings herein are for convenience of reference only, and shall not limit or otherwise affect the meaning hereof.

[Signature Page Follows]

IN WITNESS WHEREOF, the Issuer and the Indenture Trustee, have caused their duly authorized representatives to execute and deliver this Supplemental Indenture Number One as of the date first above written.

OPTION ONE OWNER TRUST 2003-5, as Issuer

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., not in its individual capacity but solely as Indenture Trustee

By: /s/ Melissa Loiselle
Name: Melissa Loiselle
Title: Vice President

The undersigned certifies that it is the holder of 100% of the Notes issued by the Issuer under the Indenture, and hereby executes this Supplemental Indenture Number One for purposes of Section 5 and consents to this Supplemental Indenture Number One:

CITIGROUP GLOBAL MARKETS REALTY CORP.

By: /s/ A. Randall Appleyard
Name: A. Randall Appleyard
Title: Authorized Agent

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 executes this Supplemental Indenture Number One for purposes of Section 3(b).

OPTION ONE LOAN WAREHOUSE LLC
(as successor-in-interest to Option One Loan Warehouse Corporation)

By: /s/ Charles R. Fulton
Name: Charles R. Fulton
Title Assistant Secretary

Exhibit 10.65

AMENDMENT NUMBER SIX
to the
SECOND AMENDED AND RESTATED SALE AND SERVICING AGREEMENT,
Dated as of March 15, 2005,
among
OPTION ONE OWNER TRUST 2001-2,
OPTION ONE LOAN WAREHOUSE CORPORATION,
OPTION ONE MORTGAGE CORPORATION,
OPTION ONE MORTGAGE CAPITAL CORPORATION
and
WELLS FARGO BANK N.A.

This AMENDMENT NUMBER SIX (this "Amendment") is made and is effective as of this 15th day of March, 2007 (the "Effective Date"), among Option One Owner Trust 2001-2 (the "Issuer"), Option One Loan Warehouse Corporation (the "Depositor"), Option One Mortgage Corporation (the "Loan Originator" and the "Servicer"), Option One Mortgage Capital Corporation ("Capital") and Wells Fargo Bank N.A., as Indenture Trustee (the "Indenture Trustee"), to the Second Amended and Restated Sale and Servicing Agreement, dated as of March 8, 2005, as amended (the "Sale and Servicing Agreement"), among the Issuer, the Depositor, the Loan Originator, the Servicer and the Indenture Trustee.

RECITALS

WHEREAS, the parties hereto desire to amend the Sale and Servicing Agreement, as more expressly set forth herein.

NOW THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and 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 Sale and Servicing Agreement.

SECTION 2. Amendments.

(A) As of the Effective Date, the definition of "Collateral Percentage" in Section 1.01 of the Sale and Servicing Agreement is hereby deleted in its entirety and replaced with the following:

Collateral Percentage: With respect to each Loan and any Business Day, a percentage determined as follows:

(i) effective as of March 16, 2007 and continuing until March 31, 2007,

(a) with respect to all Loans other than Scratch & Dent Loans and High LTV Loans, 98%;

(b) with respect to all Scratch & Dent Loans, 90%; and

(c) with respect to all High LTV Loans, 97%;

(ii) as of March 31, 2007 and continuing thereafter,

(a) with respect to all Loans other than Scratch & Dent Loans, 98%; and

(b) with respect to all Scratch & Dent Loans, 90%.

(B) As of the Effective Date, the definition of "Collateral Value" in Section 1.01 of the Sale and Servicing Agreement is hereby amended deleted in its entirety and replaced with the following (underlined text indicates a change):

(I) With respect to the Advance Note and each Business Day, 100% of the Note Principal Balance of the Advance Note on such day and (II) with respect to each Loan and each Business Day, an amount equal to the positive difference, if any, between (a) the lesser of (1) the Collateral Percentage of the Market Value of such Loan, and (2) 100% of the Principal Balance of such Loan (other than (i) a Scratch & Dent Loan which shall be 75% of the Principal Balance thereof or (ii) a High LTV loan which as of March 16, 2007 and continuing until March 31, 2007 shall be 93% of the Principal Balance thereof and as of April 1, 2007 and thereafter shall be 100% of the Principal Balance thereof) each as of such Business Day, less (b) the aggregate unreimbursed Servicing Advances attributable to such Loan as of the most recent Determination Date; provided, however, that the Collateral Value shall be zero with respect to the Advance Note following the occurrence of an Advance Note Event of Default and with respect to each Loan (1) that the Loan Originator is required to repurchase pursuant to Section 2.05 or Section 3.06 hereof or (2) which is a Loan of the type specified in subparagraphs (A)(i)-(xi) hereof and which is in excess of the limits permitted under subparagraphs (A)(i)-(xi) hereof, or (3) which remains pledged to the Indenture Trustee later than 180 days after its related Transfer Date, or (4) which has been released from the possession of the Custodian to the Servicer or any Loan Originator for a period in excess of 21 days or exceed the 50 Loan limit for released Loans set forth in the Custodial Agreement, or (5) that is a Loan which is 60 or more days Delinquent or a Foreclosed Loan, or (6) that is a Mixed Use Loan, or (7) that is a Wet Funded Loan and the related Loan Documents have not been delivered to the Custodian within fifteen (15) Business Days (or, if earlier, twenty (20) calendar days) after the date of conveyance of such Loan to the Issuer hereunder, or (8) that is a Scratch and Dent Loan that has not been liquidated within 90 days after the determination of such deficiency, or (9) that has an original Principal Balance greater than $1,500,000 or (10) that is a Scratch and Dent Loan for which a description of the related deficiency has not been reported to the Initial Noteholder within one Business Day of the related Transfer Date, or (11) that is a Loan with respect to which the related Borrower has a FICO score less than 600, the Loan has an LTV or CLTV greater than 95% and the Loan was originated pursuant to a stated income program or (12) for Loans originated on or after April 14, 2007, that has an LTV or CLTV of 90% or greater or (13) for Loan originated

on or after April 29, 2007, that is a Loan with respect to which the related Borrower has a FICO score less than 540; provided, further, that (A)

(i) the aggregate Collateral Value of Loans which are Second Lien Loans may not exceed 12% of the Maximum Note Principal Balance; provided, that the aggregate Collateral Value of Second Lien Loans exclusive of any Second Lien Loans that are Piggy-Backed Loans may not exceed 5% of the Maximum Note Principal Balance;

(ii) As of March 16, 2007 and continuing until March 31, 2007, the aggregate Collateral Value of Loans that are High LTV Loans may not exceed 30% of the Maximum Note Principal Balance. As of April 1, 2007 and continuing thereafter, the aggregate Collateral Value of Loans that are High LTV Loans may not exceed 10% of the Maximum Note Principal Balance;

(iii) the aggregate Collateral Value of Loans which are 30 to 59 days Delinquent as of the related Determination Date may not exceed 5% of the Maximum Note Principal Balance;

(iv) the aggregate Collateral Value of Loans with an original Principal Balance greater than $500,000 but less than $1,000,000 may not exceed 20% of the Maximum Note Principal Balance;

(v) the aggregate Collateral Value of Loans with an original Principal Balance greater than $1,000,000 may not exceed 5% of the Maximum Note Principal Balance;

(vi) the aggregate Collateral Value of Loans which are classified as “CC” quality Loans may not exceed 5% of the Maximum Note Principal Balance;

(vii) the aggregate Collateral Value of Loans which are classified as “C” or “CC” quality Loans may not exceed 8% of the Maximum Note Principal Balance;

(viii) the aggregate Collateral Value of Loans which are Scratch and Dent Loans may not in the aggregate exceed 5% of the Maximum Note Principal Balance;

(ix) the aggregate Collateral Value of the Loans that are Wet Funded Loans may not exceed 50% of the Maximum Note Principal Balance; provided, for the last five (5) days of each calendar month and the first eight (8) days of each calendar month, the aggregate Collateral Value of Loans that are Wet Funded Loans may not exceed 60% of the Maximum Note Principal Balance;

(x) the aggregate Collateral Value of Loans that conform to Fannie Mae, Freddie Mac or Ginnie Mae underwriting guidelines may not exceed 20% of the Maximum Note Principal Balance, and the interest rates of such Loans shall be sufficiently hedged to the satisfaction of the Initial Noteholder;

(xi) the aggregate Collateral Value of Loans which are Interest-Only Loans may not in the aggregate exceed 25% of the Maximum Note Principal Balance; and

(xii) the aggregate Collateral Value of Advance Receivables shall in no event exceed $112 million.

(B) each Loan shall be counted in each applicable category in (A) above and may be counted in 2 or more categories in (A) above at the same time; provided that once the Collateral Value of any Loan equals zero, it shall not be counted in any category listed in (A) above.

(C) As of the Effective Date, the definition of "Financial Covenants" in Section 1.01 of the Sale and Servicing Agreement is hereby amended by deleting clause (e) thereof in its entirety and replacing it with the following:

(e) Option One must maintain a minimum "Net Income" (defined and determined in accordance with GAAP) of at least $1 based on the total of the current quarter combined with the previous quarter.

SECTION 3. Representations. In order to induce the parties hereto to execute and deliver this Amendment, each of the Issuer, the Depositor and the Loan Originator hereby jointly and severally represents to the other parties hereto 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 Note Purchase Agreement 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 Sale and Servicing Agreement.

SECTION 4. Limited Effect. Except as expressly amended and modified by this Amendment, the Sale and Servicing Agreement shall continue in full force and effect in accordance with its terms. Reference to this Amendment need not be made in the Sale and Servicing Agreement 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 Sale and Servicing Agreement, any reference in any of such items to the Sale and Servicing Agreement being sufficient to refer to the Sale and Servicing Agreement as amended hereby.

SECTION 5. Fees and Expenses. The Issuer and the Depositor jointly and severally covenant to pay as and when billed by the Initial 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, (ii) all reasonable fees and expenses of the Indenture Trustee and Owner Trustee and their counsel and (iii) all reasonable fees and expenses of the Custodian and its counsel.

SECTION 6. 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 7. 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 8. 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 2001-2 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.

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 2001-2

By: Wilmington Trust Company, not in its individual capacity but solely as owner trustee

By: _____
Name:
Title:

OPTION ONE LOAN WAREHOUSE CORPORATION

By: _____
Name:
Title:

OPTION ONE MORTGAGE CORPORATION

By: _____
Name:
Title:

OPTION ONE MORTGAGE CAPITAL CORPORATION

By: _____
Name:
Title:

WELLS FARGO BANK N.A., as Indenture Trustee

By: _____
Name:
Title:

AGREED AND ACKNOWLEDGED, BANK OF AMERICA, N.A.

By: _____
Name:
Title:

Exhibit 10.66

AMENDMENT NUMBER SEVEN
to the
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,
OPTION ONE MORTGAGE CAPITAL CORPORATION
and
WELLS FARGO BANK N.A.

This AMENDMENT NUMBER SEVEN (this "Amendment") is made and is effective as of this [ ]th day of April, 2007 (the "Effective Date"), among Option One Owner Trust 2001-2 (the "Issuer"). Option One Loan Warehouse Corporation (the "Depositor"), Option One Mortgage Corporation (the "Loan Originator" and the "Servicer"), Option One Mortgage Capital Corporation ("Capital") and Wells Fargo Bank N.A., as Indenture Trustee (the "Indenture Trustee"), to the Second Amended and Restated Sale and Servicing Agreement, dated as of March 8, 2005, as amended (the "Sale and Servicing Agreement"), among the Issuer, the Depositor, the Loan Originator, the Servicer and the Indenture Trustee.

RECITALS

WHEREAS, the parties hereto desire to amend the Sale and Servicing Agreement, as more expressly set forth herein.

NOW THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and 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 Sale and Servicing Agreement.

SECTION 2. Amendments.

(a) As of the Effective Date, the definition of "Collateral Percentage" in Section 1.01 of the Sale and Servicing Agreement is hereby deleted in its entirety and replaced with the following:

Collateral Percentage: With respect to each Loan and any Business Day, a percentage determined as follows:

(a) with respect to all Loans other than Scratch & Dent Loans, 96%; and

(b) with respect to all Scratch & Dent Loans, 90%.

(b) As of the Effective Date, the first paragraph of the definition of "Collateral Value" in Section 1.01 of the Sale and Servicing Agreement is hereby deleted in its entirety and replaced with the following (underlined text indicates a change):

(I) With respect to the Advance Note and each Business Day, 100% of the Note Principal Balance of the Advance Note on such day and (II) with respect to each Loan and each Business Day, an amount equal to the positive difference, if any, between (a) the lesser of (1) the Collateral Percentage of the Market Value of such Loan, and (2) 100% of the Principal Balance of such Loan (other than (i) a Scratch & Dent Loan which shall be 75% of the Principal Balance thereof or (ii) a High LTV loan which as of March 16, 2007 and continuing until March 31, 2007 shall be 93% of the Principal Balance thereof and as of April 1, 2007 and thereafter shall be 100% of the Principal Balance thereof) each as of such Business Day, less (b) the aggregate unreimbursed Servicing Advances attributable to such Loan as of the most recent Determination Date; provided, however, that the Collateral Value shall be zero with respect to the Advance Note following the occurrence of an Advance Note Event of Default and with respect to each Loan (1) that the Loan Originator is required to repurchase pursuant to Section 2.05 or Section 3.06 hereof or (2) which is a Loan of the type specified in subparagraphs (A)(i)-(xi) hereof and which is in excess of the limits permitted under subparagraphs (A)(i)-(xi) hereof, or (3) which remains pledged to the Indenture Trustee later than 180 days after its related Transfer Date, or (4) which has been released from the possession of the Custodian to the Servicer or any Loan Originator for a period in excess of 21 days or exceed the 50 Loan limit for released Loans set forth in the Custodial Agreement, or (5) that is a Loan which is 60 or more days Delinquent or a Foreclosed Loan, or (6) that is a Mixed Use Loan, or (7) that is a Wet Funded Loan and the related Loan Documents have not been delivered to the Custodian within fifteen (15) Business Days (or, if earlier, twenty (20) calendar days) after the date of conveyance of such Loan to the Issuer hereunder, or (8) that is a Scratch and Dent Loan that has not been liquidated within 90 days after the determination of such deficiency, or (9) that has an original Principal Balance greater than $1,500,000 or (10) that is a Scratch and Dent Loan for which a description of the related deficiency has not been reported to the Initial Noteholder within one Business Day of the related Transfer Date, or (11) that is a Loan with respect to which the related Borrower has a FICO score less than 600, the Loan has an LTV or CLTV greater than 95% and the Loan was originated pursuant to a stated income program or (12) for Loans originated on or after April 14, 2007, that has an LTV or CLTV <u>greater than 90%</u> or (13) for Loan originated on or after April 29, 2007, that is a Loan with respect to which the related Borrower has a FICO score less than 540; provided, further, that (A)

(c) As of the Effective Date, the definition of "Rapid Amortization Trigger" in Section 1.01 of the Sale and Servicing Agreement is hereby amended by deleting clause (iv) in its entirety and replacing it with the following:

(iv) the Net Portfolio Yield averaged for any three consecutive months is less than 1.00%;

(d) As of the Effective Date, the definition of "Financial Covenants" in Section 1.01 of the Sale and Servicing Agreement is hereby amended by deleting clause (e) in its entirety and replacing it with the following:

(e) Option One shall have a minimum "Net Income" (defined and determined in accordance with GAAP) of at least $1 based on the quarter ending October 31, 2007 and shall maintain a minimum "Net Income" of at least $1 for every quarter thereafter.

SECTION 3. Representations. In order to induce the parties hereto to execute and deliver this Amendment, each of the Issuer, the Depositor and the Loan Originator hereby jointly and severally represents to the other parties hereto 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 Note Purchase Agreement 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 Sale and Servicing Agreement.

SECTION 4. Limited Effect. Except as expressly amended and modified by this Amendment, the Sale and Servicing Agreement shall continue in full force and effect in accordance with its terms. Reference to this Amendment need not be made in the Sale and Servicing Agreement 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 Sale and Servicing Agreement, any reference in any of such items to the Sale and Servicing Agreement being sufficient to refer to the Sale and Servicing Agreement as amended hereby.

SECTION 5. Fees and Expenses. The Issuer and the Depositor jointly and severally covenant to pay as and when billed by the Initial 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, (ii) all reasonable fees and expenses of the Indenture Trustee and Owner Trustee and their counsel and (iii) all reasonable fees and expenses of the Custodian and its counsel.

SECTION 6. 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 7. 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 8. 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 2001-2 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.

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 2001-2

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

OPTION ONE LOAN WAREHOUSE CORPORATION

By: /s/ Charles R. Fulton
Name: Charles R. Fulton
Title: Assistant Secretary

OPTION ONE MORTGAGE CORPORATION

By: /s/ Charles R. Fulton
Name: Charles R. Fulton
Title: Vice President

OPTION ONE MORTGAGE CAPITAL CORPORATION

By: /s/ Charles R. Fulton
Name: Charles R. Fulton
Title: Vice President

WELLS FARGO BANK N.A., as Indenture Trustee

By: /s/ Melissa Loiselle
Name: Melissa Loiselle
Title: Vice President

AGREED AND ACKNOWLEDGED, BANK OF AMERICA, N.A.

By: /s/ Garrett Dolt
Name: GARRETT DOLT
Title: PRINCIPAL

Exhibit 10.69

AMENDMENT NUMBER EIGHT
to the
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.

This AMENDMENT NUMBER EIGHT (this "Amendment") is made and is effective as of this 15th day of March, 2007 (the "Effective Date"), among Option One Owner Trust 2001-2 (the "Issuer"), Option One Loan Warehouse Corporation (the "Depositor") and Bank of America, N.A. ("BofA", and in its capacity as Purchaser, the "Purchaser") to the Amended and Restated Note Purchase Agreement, dated as of November 25, 2003, as amended (the "Note Purchase Agreement"), among the Issuer, the Depositor and the Purchaser.

RECITALS

WHEREAS, the Issuer has requested that the Purchaser agree to amend the Note Purchase Agreement to reduce the Maximum Note Principal Balance from $4,000,000,000 to $2,002,000,000 and the Purchaser has agreed to make such amendments, subject to the terms and conditions of this Amendment.

NOW THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and the mutual covenants herein contained, the parties hereto hereby agree as follows:

SECTION 1. Defined Terms. Any capitalized terms used but not otherwise defined herein shall have the respective meanings set forth in the Note Purchase Agreement.

SECTION 2. Amendment. As of the Effective Date, the definition of "Maximum Note Principal Balance" in Section 1.01 is hereby deleted in its entirety and replaced with the following:

"Maximum Note Principal Balance" means, an amount equal to $2,002,000,000, less any reductions pursuant to Section 2.06 of the Sale and Servicing Agreement.

SECTION 3. Representations. To induce the Purchaser to execute and deliver this Amendment, each of the Issuer and the Depositor hereby represents to the Purchaser that as of the date hereof, after giving effect to this Amendment, (a) all of its respective representations and warranties in the Note Purchase Agreement 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 Note Purchase Agreement.

SECTION 4. Fees and Expenses. The Issuer and the Depositor jointly and severally covenant to pay as and when billed by the Purchaser 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 Purchaser, (ii) all reasonable fees and expenses of the Indenture Trustee and Owner Trustee and their counsel and (iii) all reasonable fees and expenses of the Custodian and its counsel.

SECTION 5. Limited Effect. Except as expressly amended and modified by this Amendment, the Note Purchase Agreement shall continue in full force and effect in accordance with its terms. Reference to this Amendment need not be made in the Note Purchase Agreement or any other instrument or document executed in connection therewith, or in any certificate, letter or communication issued or made pursuant to, or with respect to, the Note Purchase Agreement, any reference in any of such items to the Note Purchase Agreement being sufficient to refer to the Note Purchase Agreement as amended hereby.

SECTION 6. 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.

SECTION 7. Counterparts. This Amendment may be executed by each of the parties hereto in any number of separate counterparts, each of which when so executed shall be an original and all of which taken together shall constitute one and the same instrument.

SECTION 8. 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 2001-2 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 document.

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 2001-2

By: Wilmington Trust Company, not in its individual capacity but solely as owner trustee

By: _____
Name:
Title:

OPTION ONE LOAN WAREHOUSE CORPORATION

By: _____
Name:
Title:

BANK OF AMERICA, N.A.

By: _____
Name:
Title:

Exhibit 10.72

AMENDMENT NUMBER TEN
to the
AMENDED AND RESTATED INDENTURE,
dated as of November 25, 2003,
between
OPTION ONE OWNER TRUST 2001-2
and
WELLS FARGO BANK, N.A.

This AMENDMENT NUMBER TEN (this "Amendment") is made and is effective as of this 15th day of March, 2007, between Option One Owner Trust 2001-2 (the "Issuer") and Wells Fargo Bank, N.A., as Indenture Trustee (the "Indenture Trustee"), to the Amended and Restated Indenture, dated as of November 25, 2003 (the "Indenture"), between the Issuer and the Indenture Trustee.

RECITALS

WHEREAS, the parties hereto desire to amend the Indenture subject to the terms and conditions of this Amendment.

NOW THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and 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. Amendment. Effective as of March 15, 2007, 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, March 14, 2008.

SECTION 3. 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 and the other Basic Documents, except to the extent waived by the Amendment and Waiver, dated as of January 24, 2007 (the "Indenture"), between the Issuer, Option One Mortgage Corporation, Option One Loan Warehouse Corporation, Option One Mortgage Capital Corporation, the Indenture Trustee and Bank of America as majority noteholder.

SECTION 4. Limited Effect. Except as expressly amended and modified by this Amendment, the Indenture shall continue in full force and effect in accordance with its terms. Reference to this Amendment 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 5. Fees and Expenses. The Issuer covenants to pay as and when billed by the Initial 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 6. 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.

SECTION 7. 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 8. 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 2001-2 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 2001-2

By: Wilmington Trust Company, not in its individual capacity but solely as owner trustee

By: _____
Name:
Title:

WELLS FARGO BANK, N.A., as Indenture Trustee

By: _____
Name:
Title:

[Signature Page to Amendment Ten to Amended and Restated Indenture]

Exhibit 10.78

EXECUTION COPY

AMENDMENT NO. 1
TO THE
PRICING SIDE LETTER

The PRICING SIDE LETTER (the "Letter"), dated as of January 19, 2007, by and among OPTION ONE OWNER TRUST 2002-3 (the "Company"), OPTION ONE MORTGAGE CORPORATION, as loan originator and servicer (a "Loan Originator" or the "Servicer," respectively), OPTION ONE MORTGAGE CORPORATION, as loan originator (a "Loan Originator"), OPTION ONE LOAN WAREHOUSE LLC, as depositor (the "Depositor"), WELLS FARGO BANK, N.A., as indenture trustee (the "Indenture Trustee ") and UBS Real Estate Securities Inc. ("UBS"), as purchaser (the "Purchaser"), is being hereby amended by this Amendment No. 1, dated as of April 27, 2007 (the "Amendment"), as follows. This Amendment serves as consideration for UBS's execution of the Waiver, dated as of April 27, 2007, by and among the Issuer, the Depositor, the Servicer, the Loan Originators, the Indenture Trustee and UBS.

1. Defined Terms. Capitalized terms used herein without definition have the meanings ascribed to them in the Amended and Restated Sale and Servicing Agreement (the "Sale and Servicing Agreement"), dated as of January 19, 2007, by and among the Issuer, the Depositor, the Servicer, the Loan Originators and the Indenture Trustee.

2. Amended Terms.

(a) The first paragraph of the defined term "Collateral Value" in Section 1 of the Letter is hereby deleted in its entirety and substituted with the following:

"Collateral Value: With respect to each Loan and each Business Day, an amount equal to (I) the lesser of (i) the Principal Balance of such Loan, and (ii) the product of the Market Value thereof and 97%, *less* (II) the aggregate unreimbursed Servicing Advances attributable to such Loan as of the most recent Determination Date; *provided, however,* that the Collateral Value shall be zero with respect to each Loan (1) that the Loan Originator is required to repurchase pursuant to Section 2.05 or Section 3.06 of the Sale and Servicing Agreement or (2) which is a Loan of the type specified in subparagraphs A(i)-(x) hereof and which is in excess of the limits permitted under subparagraphs A(i)-(x) hereof, or (3) which remains pledged to the Indenture Trustee later than 120 days after its related Transfer Date, or (4) which has been released from the possession of the Custodian to the Servicer or the Loan Originator for a period in excess of 14 days, or (5) that is not a Wet Funded Loan and for which the Custodian is not in possession of a complete Custodial Loan File, or (6) that is a Wet Funded Loan for which the related Custodial Loan File has not been received on or before the 14th day following the related Transfer, or (7) that breaches any representation or warranty set forth in Exhibit E with respect to such Loan, or (8) that is a First Payment Default Loan, or (9) that is Delinquent more than 89 days (or, in the case of a Wet Funded Loan, 59 days), or (10) that has been financed previously under this warehouse facility, or (11) that is in foreclosure or subject

to bankruptcy proceedings; provided, further, that (A): ”

(b) The defined term “Maximum Note Principal Balance” in Section 1 of the Letter is hereby deleted in its entirety and substituted with the following:

“Maximum Note Principal Balance: An amount equal to $750,000,000.”

3. Make-Whole Premium. The parties to this Amendment acknowledge and agree that any amounts held by the Purchaser on behalf of the Issuer as of the date hereof shall be applied to the early payment of the Make-Whole Premium, subject to rebate of any excess to the Issuer upon the termination of this facility.

4. Merger and Integration. Upon execution of this Amendment by the parties to the Letter, this Amendment shall be incorporated into and merged together with the Letter. Except as specifically provided herein, all provisions, terms and conditions of the Letter shall remain in full force and effect and the Letter as hereby amended is further ratified and reconfirmed in all respects. Except as expressly provided herein, the effectiveness of this Amendment shall not operate as, or constitute a waiver or modification of, any right, power or remedy of any party to the Letter. All references to the Letter in any other document or instrument shall be deemed to mean the Letter as amended by this Amendment.

5. Counterparts. This Amendment may be executed by the parties in several counterparts, each of which shall be deemed to be an original and all of which shall constitute together but one and the same agreement. This Amendment shall become effective when counterparts hereof executed on behalf of such party shall have been received.

6. Governing Law. This Amendment shall be construed in accordance with and governed by the laws of the State of New York applicable to agreements made and to be performed therein.

7. Acknowledgement and Waiver of Opinion of Counsel. The Issuer, the Depositor, the Loan Originators and the Indenture Trustee hereby acknowledge and agree that this Amendment is being entered into pursuant to Section 11.02 of the Sale and Servicing Agreement, and each of the Issuer and the Indenture Trustee, pursuant to an authorization and direction of the Majority Noteholders to do so, which direction is hereby given, hereby waives the right to receive an Opinion of Counsel described in Section 11.02(b) of the Sale and Servicing Agreement.

8. Liability. It is expressly understood and agreed by the parties that (a) this Amendment is executed and delivered by Wilmington Trust Company, not individually or personally, but solely as Owner Trustee, in the exercise of the powers and authority conferred and vested in it, pursuant to the Trust Agreement, (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 of binding the Issuer with respect thereto, (c) nothing herein contained shall be construed as creating any liability on Wilmington Trust Company, individually or personally, to perform any covenant either expressly or impliedly contained herein, and the right to claim any and 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 hereunder or under any other related documents.

IN WITNESS WHEREOF, the Issuer, the Depositor, the Loan Originators, the Servicer, the Indenture Trustee and the Purchaser, have caused this Amendment to be duly executed by their respective officers thereunto duly authorized, all as of the day and year first above written.

OPTION ONE OWNER TRUST 2002-3, as Issuer

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

OPTION ONE LOAN WAREHOUSE CORPORATION, as Depositor

By: /s/ Charles R. Fulton
Name: Charles R. Fulton
Title: Assistant Secretary

OPTION ONE MORTGAGE CORPORATION, as Loan Originator and Servicer

By: /s/ Charles R. Fulton
Name: Charles R. Fulton
Title: Vice President

OPTION ONE MORTGAGE CAPITAL CORPORATION, as Loan Originator

By: /s/ Charles R. Fulton
Name: Charles R. Fulton
Title: Vic e President

WELLS FARGO BANK, N A., as Indenture Trustee

By: /s/ Melissa Loiselle
Name: Melissa Loiselle
Title: Vice President

UBS REAL ESTATE SECURITIES INC., as Purchaser

By: /s/ Robert Carpenter
Name: Robert Carpenter
Title: Executive Director

By: /s/ George A. Mangiaracina
Name: George A. Mangiaracina
Title: Managing Director

[Signature page to Amendment No. 1 to PSL]

Exhibit 10.85

AMENDMENT NUMBER EIGHT
to the
AMENDED AND RESTATED INDENTURE
between
OPTION ONE OWNER TRUST 2001-1A
and
WELLS FARGO BANK, N.A.

This AMENDMENT NUMBER EIGHT (this "Amendment Number Eight") is made and is effective as of this 27th day of April, 2007, 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 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 25, 2008."

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 Number Eight 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 Number Eight, the Issuer hereby represents to the Indenture Trustee and the Noteholders that as of the date hereof, after giving effect to this Amendment Number Eight, (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 NUMBER EIGHT 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 Number Eight 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 Number Eight 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 Number Eight or any other related documents.

[signature page follows]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment Number Eight to be executed and delivered by their 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/ Melissa Loiselle
Name: Melissa Loiselle
Title: Vice President

The undersigned certifies that it is the holder of 100% of the Notes issued by the Issuer wider the Indenture, and hereby consents to this Amendment Number Eight:

GREENWICH CAPITAL FINANCIAL. PRODUCTS, INC., as Noteholder

By: /s/ Vinn Phillips
Name: Vinn Phillips
Title: Senior 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/ Charles R. Fulton
Name: Charles R. Fulton
Title: Assistant Secretary

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

Exhibit 10.92

EXECUTION COPY

FIFTH AMENDED AND RESTATED
PRICING SIDE LETTER

April 27, 2007

Reference is hereby made to, and this is the "Pricing Side Letter" referred to in, and incorporated by reference into, the Amended and Restated Sale and Servicing Agreement, dated as of August 5, 2005 (as amended, restated, supplemented or otherwise modified from time to time, the "Sale and Servicing Agreement"), by and among Option One Owner Trust 2003-4, as Issuer, Option One Loan Warehouse Corporation, as Depositor, Option One Mortgage Corporation, as Loan Originator and Servicer, and Wells Fargo Bank, N.A., as Indenture Trustee. Any capitalized term used but not defined herein shall have the meaning assigned to such term in the Sale and Servicing Agreement.

As of the date hereof, this Fifth Amended and Restated Pricing Side Letter (this "Pricing Side Letter") hereby amends, restates and supersedes, in its entirety, the Fourth Amended and Restated Pricing Side Letter dated as of October 3, 2006 by and among the parties hereto.

Section 1. [Reserved].

Section 2. [Reserved].

Section 3. Amendment to Definitions. Effective as of the date first above written and subject to the execution of this Pricing Side Letter by the parties hereto, the following terms referenced in Section 1.01 of the Sale and Servicing Agreement or Section 1.01 of the Note Purchase Agreement shall have the meanings set forth below:

Adjusted LIBO Rate: For any Accrual Period, an interest rate per annum equal to the rate per annum obtained by dividing (i) the LIBO Rate in effect for such Accrual Period by (ii) a percentage equal to 100% minus the Eurodollar Reserve Percentage for such Accrual Period.

Alternate Base Rate: A fluctuating interest rate per annum as shall be in effect from time to time, which rate per annum shall at all times be equal to the highest of:

(a) the rate of interest announced publicly by JPMorgan in Chicago, Illinois, from time to time as JPMorgan's prime rate;

(b) 1/2 of one percent above the latest three-week moving average of secondary market morning offering rates in the United States for three-month certificates of deposit of major United States money market banks, such three-week moving average being determined weekly on each Monday (or, if any such day is not a Business Day on the next succeeding Business Day) for the three-week period ending on the previous Friday by JPMorgan on the basis of such rates reported by certificate of deposit dealers to and published by the Federal Reserve Bank of New York or, if such publication shall be suspended or terminated, on the basis of

quotations for such rates received by JPMorgan from three New York certificate of deposit dealers of recognized standing selected by JPMorgan, in either case adjusted to the nearest 1/4 of one percent or, if there is no nearest 1/4 of one percent, to the next higher 1/4 of one percent; or

(c) 1/2 of one percent per annum above the Federal Funds Rate.

Assignee Rate: For any Accrual Period, an interest rate per annum equal to the Adjusted LIBO Rate plus 3.0%; provided, however, that (i) in the case of any Accrual Period of less than one month, the "Assignee Rate" for such Accrual Period shall be calculated as the Adjusted LIBO Rate as if such Accrual Period has a duration of one month; and (ii) if it shall become unlawful for JPMorgan to obtain funds in the London interbank market in order to make, fund or maintain the Note Principal Balance or deposits in dollars (in the applicable amounts) are not being offered by JPMorgan in the London interbank market, then the "Assignee Rate" for any Accrual Period shall be calculated using an interest rate per annum equal to the Alternate Base Rate.

Collateral Percentage: With respect to each Loan and any Business Day, a percentage determined as follows:

(a) with respect to all Loans other than Scratch & Dent Loans, (i) 96%; provided, that if, after the date hereof, the collateral percentage or advance rate with respect to loans similar to the Loans (other than Scratch & Dent Loans) under any of the principal transaction documents governing the indebtedness issued by Option One Owner Trust 2001-1A, Option One Owner Trust 2001-2, Option One Owner Trust 2002-3, Option One Owner Trust 2003-5, Option One Owner Trust 2005-7 or Option One Owner Trust 2005-9 is reduced below 96%, the Collateral Percentage under this clause (i) shall automatically be reduced to the lowest such collateral percentage or advance rate without further action on the part of any Person or (ii) upon the occurrence of a Performance Trigger, 95%; and

(b) with respect to all Scratch & Dent Loans, 90%.

Collateral Value: With respect to each Loan and each Business Day, an amount equal to the positive difference, if any, between (a) the lesser of (1) the Collateral Percentage of the Market Value of such Loan, and (2)(A) 100% of the Principal Balance of each Loan that is not a Scratch & Dent Loan and (B) 75% of the Principal Balance of each Scratch & Dent Loan, each as of such Business Day, less (b) the aggregate unreimbursed Servicing Advances attributable to such Loan as of the most recent Determination Date; provided, however, that the Collateral Value shall be zero with respect to each Loan (1) that the Loan Originator is required to repurchase pursuant to Section 2.05 or Section 3.06 of the Sale and Servicing Agreement or (2) which is a Loan of the type specified in subparagraphs (i)-(xiv) hereof and which is in excess of the limits permitted under subparagraphs (i)-(xiv) hereof, or (3) which remains pledged to the Indenture Trustee later than 120 days after its related Transfer Date, or (4) which has been released from the possession of

the Custodian to the Servicer or the Loan Originator for a period in excess of 14 days, or (5) that is a Loan which is 90 or more days Delinquent or a Foreclosed Loan, or (6) that is a Loan which has a Loan-to-Value Ratio greater than 100%, or (7) that is not a Wet Funded Loan and for which the Custodian is not in possession of a complete Custodial Loan File, or (8) that is a Wet Funded Loan for which the related Custodial Loan File has not been delivered to the Custodian on or before the later of the 15th Business Day and the 20th calendar day following the related Transfer Date of such Wet Funded Loan, (9) that breaches any representation or warranty set forth in Exhibit E with respect to such Loan, (10) which is not denominated and payable only in United States dollars in the United States, (11) under which the Borrower is not a resident of the United States or is a government or a governmental subdivision or agency, (12) which by its terms is not due and payable on or within 360 months of the original funding date thereof or which has had its payment terms extended, (13) which has had any of its terms, conditions or provisions modified or waived other than in compliance with Loan Originator's Underwriting Guidelines, or (14) which would be deemed part of a "predatory lending" bucket as defined within the state of the United States in which the related Mortgaged Property is located; provided, further, that (A):

(i) the aggregate Collateral Value of Loans which are Second Lien Loans may not exceed 2% of the aggregate Principal Balance of all Loans that are not Scratch & Dent Loans;

(ii) the aggregate Collateral Value of Loans which are 60 to 89 days Delinquent as of the related Determination Date may not exceed 2% of the aggregate Principal Balance of all Loans that are not Scratch & Dent Loans;

(iii) the aggregate Collateral Value of Loans with respect to which the related Borrower's Credit Score is below 540 may not exceed 10% of the aggregate Principal Balance of all Loans;

(iv) the aggregate Collateral Value of Loans which have a Loan-to-Value Ratio (if a First Lien Loan) or CLTV (if a Second Lien Loan) greater than 95% must be less than 5% of the aggregate Principal Balance of all Loans;

(v) the aggregate Collateral Value of Loans which have a Loan-to-Value Ratio (if a First Lien Loan) or CLTV (if a Second Lien Loan) greater than 90% must be less than 10% of the aggregate Principal Balance of all Loans;

(vi) the aggregate Collateral Value of Loans which have a Loan-to-Value Ratio (if a First Lien Loan) or CLTV (if a Second Lien Loan) greater than 85% must be less than 30% of the aggregate Principal Balance of all Loans;

(vii) the aggregate Collateral Value of Loans which have a Loan-to-Value Ratio (if a First Lien Loan) or CLTV (if a Second Lien Loan) greater than 80% must be less than 35% of the aggregate Principal Balance of all Loans;

(viii) the aggregate Collateral Value of Loans that are Scratch & Dent Loans may not exceed $50,000,000; provided that the foregoing limit shall be reduced by the aggregate principal balance of Scratch & Dent Loans subject to any other secured loan, repurchase or credit facility entered into by the Loan Originator and the Note Agent or any Affiliate thereof;

(ix) the aggregate Collateral Value of "prime" or "A-quality" Loans originated by H&R Block Mortgage Corp. may not exceed $50,000,000; provided that the foregoing limit shall be reduced by the aggregate principal balance of "prime" or "A-quality" Loans subject to any other secured loan, repurchase or credit facility entered into by the Loan Originator and the Note Agent or any Affiliate thereof;

(x) the aggregate Collateral Value of Loans that are Wet Funded Loans may not exceed the greater of (A) $100,000,000.00 and (B) 35% of the aggregate Principal Balance of all Loans; provided, however, that the foregoing amount in clause (B) shall not exceed $500,000,000.00; provided, further, that each of the foregoing limits shall be reduced by the aggregate principal balance of Wet Funded Loans subject to any other note purchase, secured loan, repurchase or credit facility entered into by the Loan Originator and the Note Agent or any Affiliate thereof;

(xi) the aggregate Collateral Value of Loans originated by the Loan Originator more than 90 days prior to such Loans' related Transfer Date may not exceed the lesser of $50,000,000.00 or 5% of the aggregate Principal Balance of all Loans, or such greater amount as the Market Value Agent may determine from time to time, in its sole discretion; provided, further, that each of the foregoing limits shall be reduced by the aggregate principal balance of Loans originated by the Loan Originator more than 90 days prior to such Loans' related Transfer Date and subject to any other secured loan, repurchase or credit facility entered into by the Loan Originator and the Note Agent or any Affiliate thereof; and

(xii) the aggregate Collateral Value of Loans with Lost Note Affidavits may not exceed the lesser of $5,000,000.00 or 5% of the aggregate Principal Balance of all Loans; provided, further, that each of the foregoing limits shall be reduced by the aggregate principal balance of Loans with Lost Note Affidavits subject to any other secured loan, repurchase or credit facility entered into by the Loan Originator and the Note Agent or any Affiliate thereof;

(xiii) the aggregate Collateral Value of Loans that are Interest-Only Loans (as defined in Exhibit E to the Sale and Servicing Agreement) may not exceed 15% of the aggregate Principal Balance of all Loans; provided, however, that the foregoing limit shall be reduced by the aggregate principal balance of Interest-Only Loans subject to any other note purchase, secured loan, repurchase or credit facility entered into by the Loan Originator and the Note Agent or any Affiliate thereof; and

(xiv) each Loan shall be counted in each applicable category in (A) above and may be counted in 2 or more categories in (A) above at the same time;

provided that once the Collateral Value of any Loan equals zero, it shall not be counted in any category listed in (A) above.

Commitment Termination Date: October 2, 2007, as such date may be extended in accordance with Section 2.05 of the Note Purchase Agreement.

CP Rate: For each Conduit Purchaser for any Accrual Period, the per annum rate equivalent to the weighted average of the per annum rates paid or payable by such Conduit Purchaser from time to time as interest on or otherwise (by means of interest rate hedges or otherwise) in respect of the Commercial Paper Notes issued by such Conduit Purchaser that are allocated, in whole or in part, by the Note Agent (on behalf of such Conduit Purchaser) to fund or maintain its interest in the Note during such Accrual Period, as determined by the Note Agent (on behalf of such Conduit Purchaser) and reported to the Servicer and the Indenture Trustee, which rates shall reflect and give effect to the commissions of placement agents and dealers in respect of such promissory notes, to the extent such commissions are allocated, in whole or in part, to such promissory notes by the Note Agent (on behalf of such Conduit Purchaser); provided, however, that if any component of such rate is a discount rate, in calculating the "CP Rate" for such Accrual Period, the Note Agent shall for such component use the rate resulting from converting such discount rate to an interest bearing equivalent rate per annum.

Eurodollar Reserve Percentage: For any Accrual Period, the reserve percentage applicable to JPMorgan during such Accrual Period under regulations issued from time to time by the Board of Governors of the Federal Reserve System (or any successor) (or if more than one such percentage shall be so applicable, the daily average of such percentages for those days in such Accrual Period during which any such percentage shall be so applicable) under regulations issued from time to time by the Board of Governors of the Federal Reserve System (or, any successor) for determining the maximum reserve requirement (including, without limitation, any emergency, supplemental or other marginal reserve requirement) for JPMorgan in respect of liabilities or assets consisting of or including Eurocurrency Liabilities having a term equal to such Accrual Period.

Federal Funds Rate: For any day, a fluctuating interest rate per annum equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published for such day (or, if such day is not a Business Day, for the next preceding Business Day) by the Federal Reserve Bank of New York, or, if such rate is not so published for any day which is a Business Day, the average of the quotations for such day for such transactions received by JPMorgan from three Federal funds brokers of recognized standing selected by it.

LIBO Rate: With respect to any Accrual Period, the rate per annum equal to the applicable British Bankers' Association Interest Settlement Rate for deposits in U.S. dollars appearing on Reuters Screen FRBD as of 11:00 a.m. (London time) two Business Days prior to the first day of the relevant Accrual Period, and having a

maturity equal to such Accrual Period, provided that, (1) if Reuters Screen FRBD is not available to the Note Agent for any reason, the applicable LIBO Rate for the relevant Accrual Period shall instead be the applicable British Bankers' Association Interest Settlement Rate for deposits in U.S. dollars as reported by any other generally recognized financial information service as of 11:00 a.m. (London time) two Business Days prior to the first day of such Accrual Period, and having a maturity equal to such Accrual Period, and (2) if no such British Bankers' Association Interest Settlement Rate is available to the Note Agent, the applicable LIBO Rate for the relevant Accrual Period shall instead be the rate determined by the Note Agent to be the rate at which it offers to place deposits in U.S. dollars with first-class banks in the London interbank market at approximately 11:00 a.m. (London time) two Business Days prior to the first day of such Accrual Period, in the approximate amount to be funded at the LIBO Rate and having a maturity equal to such Accrual Period.

LIBOR Determination Date: The date as of which the LIBO Rate is determined, pursuant to the definition of that term set forth in this Pricing Side Letter.

Maximum Note Principal Balance: (i) $1,500,000,000 until March 31, 2006, and (ii) from and after March 31, 2006, $1,000,000,000, in each case as such amount may be increased or decreased in accordance with the terms of the Note Purchase Agreement.

Nonutilization Fee: A fee payable by the Issuer to the Initial Noteholder on each Payment Date in an amount equal to (a) 0.175% times (b) the average daily amount for the immediately preceding month of (1) the product of 1.02% and the Maximum Note Principal Balance in effect during such month less (2) the Note Principal Balance divided by (c) 360 and multiplied by (d) the actual number of calendar days that have elapsed since the immediately preceding Payment Date (or, with respect to the first Payment Date, the Closing Date).

Note Interest Rate: For any Accrual Period:

(i) to the extent that a Conduit Purchaser funds or maintains its interest in the Note by issuing its Commercial Paper Notes, the CP Rate,

(ii) if and to the extent that a Conduit Purchaser elects in its sole discretion not to fund or maintain, or is not able to fund or maintain, its interest in the Note for such Accrual Period by the issuance of its Commercial Paper Notes, or if and to the extent that a Committed Purchaser funds or maintains an interest in the Note, a rate equal to the Assignee Rate for such Accrual Period.

(iii) at any time following the occurrence of an Event of Default, the "Note Interest Rate" for each Accrual Period shall be the sum of the Alternate Base Rate plus 3.0% per annum.

Overcollateralization Shortfall: With respect to any Business Day, an amount equal to the positive difference, if any, between (a) the Note Principal Balance on such Business Day and (b) the aggregate Collateral Value of all Loans in the Loan

Pool as of such Business Day; provided, however, that (i) if such Business Day is not a Payment Date, an Overcollateralization Shortfall shall not occur if the Note Principal Balance exceeds the Collateral Value on such Business Day by an amount less than or equal to 1.00% of such Note Principal Balance solely as a result of the aggregate Collateral Value of Loans in any category described in clauses (i) through (xii) of the second proviso set forth in the definition of "Collateral Value" exceeding the applicable concentration limit set forth therein, and (ii) on (A) the termination of the Revolving Period, (B) the occurrence of a Rapid Amortization Trigger, (C) the Payment Date on which the Trust is to be terminated pursuant to Section 10.02 of the Sale and Servicing Agreement, or (D) the Final Put Date, the Overcollateralization Shortfall shall be equal to the Note Principal Balance. Notwithstanding anything to the contrary herein, in no event shall the Overcollateralization Shortfall, with respect to any Business Day, exceed the Note Principal Balance as of such date. If as of such Business Day, no Rapid Amortization Trigger or Default under this Agreement or the Indenture shall be in effect, the Overcollateralization Shortfall shall be reduced (but in no event to an amount below zero) by all or any portion of the aggregate Hedge Value as of such Payment Date as the Majority Noteholders may, in their sole discretion, designate in writing.

Revolving Period: With respect to the Notes, the period commencing on the Closing Date and ending on the earlier of (i) October 2, 2007, and (ii) the date on which the Revolving Period is terminated pursuant to Section 2.07 of the Sale and Servicing Agreement. The Revolving Period may be extended annually, in the sole discretion of the Note Agent, upon the request of the Depositor.

Section 4. Amendment to the Sale and Servicing Agreement. Effective as of the date first above written and subject to the execution of this Pricing Side Letter by the parties hereto, clause (xx) of Exhibit E to the Sale and Servicing Agreement is hereby amended to insert at the end thereof:

Notwithstanding the foregoing, a Loan that satisfies all of the other representations and warranties set forth in Exhibit E may satisfy the representation and warranty set forth in this clause, subject to the limitations set forth in the definition of "Collateral Value", if the principal payments on such Loan commence more than two months but no more than seven years after the proceeds of such Loan were disbursed (any such loan being an "Interest-Only Loan").

Section 5. Amendment to the Note Purchase Agreement. Effective as of the date first above written and subject to the execution of this Pricing Side Letter by the parties hereto, Schedule II to the Note Purchase Agreement is hereby amended to delete the notice address for PREFCO now appearing therein and to substitute the following notice address for PARCO therefor:

If to Park Avenue Receivables Company LLC:

c/o JPMorgan Chase Bank, N.A., as Note Agent
Asset Backed Finance
Suite IL1-0079, 1-19
1 Bank One Plaza Chicago, Illinois 60670-0079
Facsimile No.: (312)732-1844
Telephone No.: (312)732-2960

With a copy to the Note Agent;

Section 6. Counterparts; Amendment.

This Pricing Side Letter may be executed simultaneously in any number of counterparts. Each counterpart shall be deemed to be an original, and all such counterparts shall constitute one and the same instrument. No amendment or waiver of any provision of this Pricing Side Letter, and no consent to any departure by any of the parties hereto from its expressed terms, shall in any event be effective unless the same shall be in writing and signed by the parties hereto.

Section 7. Limitation on Liability.

It is expressly understood and agreed by the parties hereto that (a) this Pricing Side Letter is executed and delivered by Wilmington Trust Company, not individually or personally, but solely as Owner Trustee of Option One Owner Trust 2003-4 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 of 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 Pricing Side Letter or any other related documents.

[SIGNATURE PAGES FOLLOW]

IN WITNESS WHEREOF, the parties and the Conduit Purchasers identified below have caused their names to be signed hereto by their respective officers thereunto duly authorized on the date first above written.

Option One Owner Trust 2003-4

By: Wilmington Trust Company, not in its individual capacity but solely in its capacity as Owner Trustee

By: /s/ Mary Kay Pupillo
Name: Mary Kay Pupillo
Title: Assistant Vice President

Wells Fargo Bank, N.A., not in its individual capacity, but solely as Indenture Trustee

By: /s/ Melissa Loiselle
Name: Melissa Loiselle
Title: Vice President

Option One Loan Warehouse Corporation

By: /s/ Charles R. Fulton
Name: Charles R. Fulton
Title: Assistant Secretary

Option One Mortgage Corporation

By: /s/ Charles R. Fulton
Name: Charles R. Fulton
Title: Vice President

Falcon Asset Securitization Company LLC (formerly known as Falcon Asset Securitization Corporation), as a Conduit Purchaser

By: JPMorgan Chase Bank, N.A., its attorney-in-fact

By: /s/ John K. Svolos
Name: John K. Svolos
Title: Executive Director

JPMorgan Chase Bank, N.A., as Note Agent and Committed Purchaser

By: /s/ John K. Svolos
Name: John K. Svolos
Title: Executive Director

Park Avenue Receivables Company LLC, as a Conduit Purchaser

By: JPMorgan Chase Bank, N.A., its attorney-in-fact

By: /s/ John K. Svolos
Name: John K. Svolos
Title: Executive Director

Exhibit 10.101

AMENDMENT NUMBER TWO
to the
PRICING LETTER
Dated as of December 30, 2005
by and among
OPTION ONE OWNER TRUST 2005-9
OPTION ONE LOAN WAREHOUSE CORPORATION
OPTION ONE MORTGAGE CORPORATION
and
WELLS FARGO BANK, NA.

This AMENDMENT NUMBER TWO is made this 27th day of April, 2007 ("Amendment Number Two"), by and among Option One Owner Trust 2005-9, a Delaware statutory trust (the "Issuer"), Option One Loan Warehouse Corporation, a Delaware corporation, as Depositor (the "Depositor"), Option One Mortgage Corporation, a California corporation, as Loan Originator and Servicer (the "Loan Originator" or "Servicer"), and Wells Fargo Bank, N.A., a national banking association, as Indenture Trustee on behalf of the Noteholders (the "Indenture Trustee"), to the Pricing Letter, dated as of December 30, 2005, by and among the Issuer, the Depositor, the Loan Originator and the Indenture Trustee (the "Letter"). Capitalized terms used herein but not defined will have the meaning attributed to such term in the Sale and Servicing Agreement dated as of December 30, 2005 among Issuer, the Depositor, the Loan Originator and the Indenture Trustee, as amended (the "Sale and Servicing Agreement").

RECITALS

WHEREAS, the parties hereto desire to amend the Letter subject to the terms and conditions of this Amendment;

WHEREAS, as of the date hereof (after giving effect to the amendments to the Agreement contemplated herein), each of the Depositor and the Loan Originator represents to the Indenture Trustee and the Noteholders that it is in compliance with all of the representations and warranties and all of the affirmative and negative covenants set forth in the Basic Documents and no default has occurred and is continuing under any Basic Documents to which it is a party; and

WHEREAS, the Depositor, the Loan Originator, the Issuer, the Indenture Trustee and the Majority Noteholders have agreed to amend the Letter as set forth herein.

NOW THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and for the mutual covenants herein contained, the parties hereto hereby agree as follows:

SECTION 1. Effective as of April 27, 2007 (the "Effective Date"), the Letter is hereby amended as follows:

(a) The definition of "Collateral Value" in Section 1 of the Letter is hereby amended by deleting clause (I)(ii) and replacing it with "(ii) the product of the Market Value thereof and 96%, *less*".

(b) In the definition of "Maximum Aggregate Note Principal Balance", "$500,000,000" shall be deleted and replaced with $1,000,000,000.

(c) In the definition of "Maximum Committed Note Principal Balance", "$1,000,000,000" shall be deleted and replaced with $500,000,000".

SECTION 2. Limited Effect. Except as amended hereby, the Letter shall continue in full force and effect in accordance with its terms. Reference to this Amendment Number Two need not be made in the Letter or any other instrument or document executed in connection therewith, or in any certificate, letter or communication issued or made pursuant to, or with respect to, the Letter, any reference in any of such items to the Letter being sufficient to refer to the Letter as amended hereby.

SECTION 3. Acknowledgement and Waiver of Opinion of Counsel. The Issuer, the Depositor, the Loan Originator and the Indenture Trustee hereby acknowledge and agree that this Amendment Number Two is being entered into pursuant to Section 11.02(b) of the Sale and Servicing Agreement, and each of the Issuer and the Indenture Trustee, pursuant to an authorization and direction of the Majority Noteholders to do so, which direction is hereby given, hereby waives the right to receive an Opinion of Counsel described in Section 11.02 of the Sale and Servicing Agreement.

SECTION 4. Representations. In order to induce the parties hereto to execute and deliver this Amendment Number Two, each of the Issuer, the Depositor and the Loan Originator hereby jointly and severally represents to the other parties hereto and to the Noteholders that as of the date hereof, after giving effect to this Amendment Number Two, (a) all of its respective representations and warranties in the other Basic Documents to which it is a party are true and correct, and (b) it is otherwise in full compliance with all of the terms and conditions of the Basic Documents to which it is a party.

SECTION 5. Limited Effect. Except as expressly amended and modified by this Amendment Number Two, the Letter shall continue in full force and effect in accordance with its terms. Reference to this Amendment Number Two need not be made in the Letter 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 Letter, any reference in any of such items to the Letter being sufficient to refer to the Letter as amended hereby.

SECTION 6. Fees and Expenses. The Issuer and the Depositor jointly and severally covenant to pay as and when billed by the Purchasers 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 Purchasers, (ii) all reasonable fees and expenses of the Indenture Trustee and Owner Trustee and their counsel and (iii) all reasonable fees and expenses of the Custodian and its counsel.

SECTION 7. Governing Law. This Amendment Number Two shall be construed in accordance with the laws of the State of New York and the obligations, rights, and remedies of the parties hereunder shall be determined in accordance with such laws without regard to conflict of laws doctrine applied in such state (other than Section 5-1401 of the New York General Obligations Law).

SECTION 8. Counterparts. This Amendment Number Two 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 9. Limitation on Liability. It is expressly understood and agreed by the parties hereto that (a) this Amendment Number Two is executed and delivered by Wilmington Trust Company, not individually or personally, but solely as Owner Trustee of Option One Owner Trust 2005-9, 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 Number Two or any other related documents.

[REMAINDER OF THIS PAGE LEFT INTENTIONALLY BLANK]

IN WITNESS WHEREOF, the Issuer, the Depositor, the Loan Originator and the Indenture Trustee have caused this Amendment Number Two to the Pricing Letter to be executed and delivered by their duly authorized officers as of the day and year first above written.

OPTION ONE OWNER TRUST 2005-9,
By: Wilmington Trust Company, not in its individual capacity but solely as Owner Trustee

By: /s/ Ian P. Monigle
Name: Ian P. Monigle
Title: Financial Services Officer

OPTION ONE LOAN WAREHOUSE CORPORATION, as Depositor

By: /s/ Philip Laren
Name: Philip Laren
Title: Vice President

OPTION ONE MORTGAGE CORPORATION, as Loan Originator and Servicer

By: /s/ Philip Laren
Name: Philip Laren
Title: Senior Vice President

WELLS FARGO BANK, N.A., as Indenture Trustee

By: /s/ Melissa Loiselle
Name: Melissa Loiselle
Title: Vice President

Acknowledged and Consented to as of this 27th day of April, 2007

DB STRUCTURED PRODUCTS, INC., as Majority Noteholder

By: /s/ Glenn Minkoff
Name: Glenn Minkoff
Title: Director

By: /s/ John McCarthy
Name: John McCarthy
Title: Authorized Signatory

GEMINI SECURITIZATION CORP., LLC, as Majority Noteholder

By: /s/ R. Douglas Donaldson
Name: R. Douglas Donaldson
Title: Treasurer

ASPEN FUNDING CORP., as Majority Noteholder

By: /s/ Doris J. Hearn
Name: Doris J. Hearn
Title: Vice President

NEWPORT FUNDING CORP., as Majority Noteholder

By: /s/ Doris J. Hearn
Name: Doris J. Hearn
Title: Vice President

EXHIBIT 12

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

	2007	2006	2005	2004	2003
Pretax income from continuing operations before change in accounting principle	$635,798	$510,482	$527,613	$459,570	$192,106
FIXED CHARGES:					
Interest expense	132,868	76,367	82,311	81,672	88,784
Interest on deposits	27,475	—	—	—	—
Interest portion of net rent expense (a)	106,063	100,606	81,386	72,607	65,528
Total fixed charges	266,406	176,973	163,697	154,279	154,312
Earnings before income taxes and fixed charges	$902,204	$687,455	$691,310	$613,849	$346,418
Ratio of earnings to fixed charges					
Including interest on deposits	3.4	3.9	4.2	4.0	2.2
Excluding interest on deposits	3.8	3.9	4.2	4.0	2.2

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

Note: In computing the ratio of earnings to fixed charges: (a) earnings have been based on income from continuing operations before income taxes and fixed charges (exclusive of interest capitalized) and (b) fixed charges consist of interest expense, interest paid on deposits, and the estimated interest portion of rents.

Exhibit 21

SUBSIDIARIES OF H&R BLOCK, INC.

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

Name	Jurisdiction
1) H&R Block Group, Inc.	Delaware
2) HRB Management, Inc.	Missouri
3) H&R Block Tax and Financial Services Limited	United Kingdom
4) Companion Insurance, Ltd.	Bermuda
5) H&R Block Services, Inc.	Missouri
6) H&R Block Tax Services, Inc.	Missouri
7) HRB Partners, Inc.	Delaware
8) HRB Texas Enterprises, Inc.	Missouri
9) H&R Block and Associates, L.P.	Delaware
10) H&R Block Canada, Inc.	Canada
11) Financial Stop, Inc.	British Columbia
12) H&R Block Canada Financial Services, Inc.	Canada
13) H&R Block (Nova Scotia) Incorporated	Nova Scotia
14) H&R Block Enterprises, Inc.	Missouri
15) H&R Block Eastern Enterprises, Inc.	Missouri
16) The Tax Man, Inc.	Massachusetts
17) HRB Royalty, Inc.	Delaware
18) H&R Block Limited.	New South Wales
19) West Estate Investors, LLC	Missouri
20) H&R Block Global Solutions (Hong Kong) Limited	Hong Kong
21) Express Tax Service, Inc.	Delaware
22) H&R Block Tax and Business Services, Inc.	Delaware
23) H&R Block Tax Institute, LLC	Missouri
24) Block Financial Corporation	Delaware
25) Option One Mortgage Corporation	California
26) Option One Mortgage Acceptance Corporation	Delaware
27) Option One Mortgage Securities Corp.	Delaware
28) Option One Mortgage Securities II Corp.	Delaware
29) Premier Trust Deed Services, Inc.	California
30) Premier Mortgage Services of Washington, Inc.	Washington
31) H&R Block Mortgage Corporation	Massachusetts
32) Option One Insurance Agency, Inc. (d/b/a H&R Block Insurance Agency)	California
33) Woodbridge Mortgage Acceptance Corporation	Delaware
34) Option One Loan Warehouse LLC	Delaware
35) Option One Advance Corporation	Delaware
36) AcuLink Mortgage Solutions, LLC	Florida
37) AcuLink of Alabama, LLC	Alabama
38) Option One Mortgage Corporation (India) Pvt Ltd	India
39) Option One Mortgage Capital Corporation	Delaware
40) First Option Asset Management Services, LLC	California
41) Premier Property Tax Services, LLC	California
42) First Option Asset Management Services, Inc.	California
43) Option One Mortgage Securities III Corp.	Delaware
44) Option One Mortgage Securities IV, LLC	Delaware
45) Companion Mortgage Corporation	Delaware
46) Franchise Partner, Inc.	Nevada
47) HRB Financial Corporation	Michigan

Name	Jurisdiction
48) H&R Block Financial Advisors, Inc.	Michigan
49) OLDE Discount of Canada	Canada
50) H&R Block Insurance Agency of Massachusetts, Inc.	Massachusetts
51) HRB Property Corporation	Michigan
52) HRB Realty Corporation	Michigan
53) 4230 West Green Oaks, Inc.	Michigan
54) Financial Marketing Services, Inc.	Michigan
55) 2430472 Nova Scotia Co.	Nova Scotia
56) H&R Block Digital Tax Solutions, LLC	Delaware
57) TaxNet Inc.	California
58) H&R Block Bank	Federal
59) BFC Transactions, Inc.	Delaware
60) RSM McGladrey Business Services, Inc.	Delaware
61) RSM McGladrey, Inc.	Delaware
62) RSM McGladrey Financial Process Outsourcing, L.L.C.	Minnesota
63) RSM McGladrey Financial Process Outsourcing India Pvt. Ltd (70% ownership)	India
64) Birchtree Financial Services, Inc.	Oklahoma
65) Birchtree Insurance Agency, Inc.	Missouri
66) Pension Resources, Inc.	Illinois
67) FM Business Services, Inc. (d/b/a Freed Maxick ABL Services)	Delaware
68) O’Rourke Career Connections, LLC (50% ownership)	California
69) Credit Union Jobs, LLC	California
70) RSM McGladrey TBS, LLC	Delaware
71) PDI Global, Inc.	Delaware
72) RSM Equico, Inc.	Delaware
73) RSM Equico Capital Markets, LLC	Delaware
74) Equico, Inc.	California
75) Equico Europe Limited	United Kingdom
76) RSM Equico Canada, Inc.	Canada
77) RSM McGladrey Business Solutions, Inc. (d/b/a RSM McGladrey Retirement Resources)	Delaware
78) CFS-McGladrey, LLC (50% ownership)	Massachusetts
79) Creative Financial Staffing of Western Washington, LLC (50% ownership)	Massachusetts
80) Cfstaffing, Ltd. (25% ownership)	British Columbia
81) RSM McGladrey Insurance Services, Inc.	Delaware
82) RSM McGladrey Employer Services, Inc.	Georgia
83) RSM Employer Services Agency, Inc.	Georgia
84) RSM Employer Services Agency of Florida, Inc.	Florida
85) H&R Block (India) Pvt. Ltd.	India
86) TaxWorks, Inc.	Delaware
87) RSM (Bahamas) Global, Ltd.	Bahamas

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

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, 2007 with respect to the consolidated balance sheets of H&R Block, Inc. and its subsidiaries as of April 30, 2007 and 2006, 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, 2007 and the related financial statement schedule, management's assessment of the effectiveness of internal control over financial reporting as of April 30, 2007, and the effectiveness of internal control over financial reporting as of April 30, 2007, which reports appear in the April 30, 2007 annual report on Form 10-K of H&R Block, Inc.

/s/ KPMG LLP

Kansas City, Missouri
June 29, 2007

Exhibit 31.1

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 29, 2007

/s/ Mark A. Ernst
Mark A. Ernst
Chief Executive Officer
H&R Block, Inc.

Exhibit 31.2

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 29, 2007

/s/ William L. Trubeck
William L. Trubeck
Executive Vice President and Chief Financial Officer
H&R Block, Inc.

Exhibit 32.1

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

In connection with the annual report of H&R Block, Inc. (the "Company") on Form 10-K for the fiscal year ending April 30, 2007 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. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Mark A. Ernst
Mark A. Ernst
Chief Executive Officer
H&R Block, Inc.
June 29, 2007

Exhibit 32.2

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

In connection with the annual report of H&R Block, Inc. (the "Company") on Form 10-K for the fiscal year ending April 30, 2007 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. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ William L. Trubeck
William L. Trubeck
Executive Vice President and Chief
Financial Officer
H&R Block, Inc.
June 29, 2007