

H&R BLOCK INC (HRB)

10-Q

Quarterly report pursuant to sections 13 or 15(d)

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

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended October 31, 2012

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission file number 1-6089



H&R BLOCK®

H&R Block, Inc.

(Exact name of registrant as specified in its charter)

MISSOURI
(State or other jurisdiction of
incorporation or organization)

44-0607856
(I.R.S. Employer
Identification No.)

One H&R Block Way
Kansas City, Missouri 64105
(Address of principal executive offices, including zip code)
(816) 854-3000
(Registrant's telephone number, including area code)

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

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

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

The number of shares outstanding of the registrant's Common Stock, without par value, at the close of business on November 30, 2012 was 271,292,739 shares.



Form 10-Q for the Period Ended October 31, 2012

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CONSOLIDATED BALANCE SHEETS

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

As of	October 31, 2012	April 30, 2012
	(Unaudited)	
ASSETS		
Cash and cash equivalents	\$ 1,260,901	\$ 1,944,334
Cash and cash equivalents – restricted	38,667	48,100
Receivables, less allowance for doubtful accounts of \$42,761 and \$44,589	124,511	193,858
Prepaid expenses and other current assets	282,874	314,702
Total current assets	1,706,953	2,500,994
Mortgage loans held for investment, less allowance for loan losses of \$18,125 and \$26,540	370,850	406,201
Investments in available-for-sale securities	388,640	371,315
Property and equipment, at cost, less accumulated depreciation and amortization of \$562,178 and \$622,313	285,335	252,985
Intangible assets, net	262,296	264,451
Goodwill	434,492	427,566
Other assets	448,164	426,055
Total assets	<u>\$3,896,730</u>	<u>\$ 4,649,567</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Customer banking deposits	\$ 790,106	\$ 827,549
Accounts payable, accrued expenses and other current liabilities	406,447	567,079
Accrued salaries, wages and payroll taxes	39,345	163,992
Accrued income taxes	95,126	336,374
Current portion of long-term debt	600,678	631,434
Total current liabilities	1,931,702	2,526,428
Long-term debt	906,125	409,115
Other noncurrent liabilities	365,970	388,132
Total liabilities	<u>3,203,797</u>	<u>3,323,675</u>
Commitments and contingencies		
Stockholders' equity:		
Common stock, no par, stated value \$.01 per share, 800,000,000 shares authorized, shares issued of 316,628,110 and 397,886,599	3,166	3,979
Additional paid-in capital	748,298	796,784
Accumulated other comprehensive income	8,685	12,145
Retained earnings	795,707	2,523,997
Less treasury shares, at cost	(862,923)	(2,011,013)
Total stockholders' equity	<u>692,933</u>	<u>1,325,892</u>
Total liabilities and stockholders' equity	<u>\$3,896,730</u>	<u>\$ 4,649,567</u>

See Notes to Consolidated Financial Statements

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

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

	Three months ended October 31,		Six months ended October 31,	
	2012	2011	2012	2011
Revenues:				
Service revenues	\$ 116,438	\$ 109,983	\$ 196,334	\$ 193,003
Product and other revenues	10,966	9,290	17,686	16,553
Interest income	9,859	9,921	19,732	20,261
	<u>137,263</u>	<u>129,194</u>	<u>233,752</u>	<u>229,817</u>
Expenses:				
Cost of revenues:				
Compensation and benefits	54,764	61,438	94,349	108,659
Occupancy and equipment	82,398	86,551	162,349	170,054
Depreciation/amortization of property and equipment	17,927	16,652	34,232	33,124
Provision for bad debt and loan losses	3,725	8,200	8,370	15,491
Interest	23,390	22,873	45,467	45,809
Other	29,807	31,899	60,668	67,060
	<u>212,011</u>	<u>227,613</u>	<u>405,435</u>	<u>440,197</u>
Impairment of goodwill	-	4,257	-	4,257
Selling, general and administrative expenses	90,327	103,755	165,805	196,408
	<u>302,338</u>	<u>335,625</u>	<u>571,240</u>	<u>640,862</u>
Operating loss	(165,075)	(206,431)	(337,488)	(411,045)
Other income, net	2,787	2,502	5,931	6,515
Loss from continuing operations before tax benefit	(162,288)	(203,929)	(331,557)	(404,530)
Income tax benefit	(61,089)	(80,916)	(124,708)	(162,362)
Net loss from continuing operations	(101,199)	(123,013)	(206,849)	(242,168)
Net loss from discontinued operations	(4,044)	(18,711)	(5,835)	(74,654)
Net loss	<u>\$ (105,243)</u>	<u>\$ (141,724)</u>	<u>\$ (212,684)</u>	<u>\$ (316,822)</u>
Basic and diluted loss per share:				
Net loss from continuing operations	\$ (0.37)	\$ (0.41)	\$ (0.76)	\$ (0.80)
Net loss from discontinued operations	(0.02)	(0.06)	(0.02)	(0.25)
Net loss	<u>\$ (0.39)</u>	<u>\$ (0.47)</u>	<u>\$ (0.78)</u>	<u>\$ (1.05)</u>
Basic and diluted shares	<u>271,145</u>	<u>299,895</u>	<u>274,150</u>	<u>302,693</u>
Dividends paid per share	<u>\$ 0.20</u>	<u>\$ 0.15</u>	<u>\$ 0.40</u>	<u>\$ 0.30</u>
Comprehensive income (loss):				
Net loss	\$ (105,243)	\$ (141,724)	\$ (212,684)	\$ (316,822)
Unrealized gains on securities, net of taxes:				
Unrealized holding gains arising during the period, net of taxes of \$131, \$608, \$283 and \$1,312	187	905	357	1,974
Reclassification adjustment for gains included in income, net of taxes of \$71, \$-, \$71 and \$58	(104)	-	(104)	(94)
Change in foreign currency translation adjustments	1,252	(9,238)	(3,713)	(8,754)
Other comprehensive income (loss)	1,335	(8,333)	(3,460)	(6,874)
Comprehensive loss	<u>\$ (103,908)</u>	<u>\$ (150,057)</u>	<u>\$ (216,144)</u>	<u>\$ (323,696)</u>

See Notes to Consolidated Financial Statements

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited, amounts in 000s)

Six months ended October 31,	2012	2011
Net cash used in operating activities	\$ (567,036)	\$ (582,628)
Cash flows from investing activities:		
Purchases of available-for-sale securities	(67,474)	(155,159)
Sales, maturities and payments received on available-for-sale securities	53,098	23,249
Principal repayments on mortgage loans held for investment, net	23,608	22,978
Purchases of property and equipment, net	(60,720)	(40,510)
Payments made for acquisitions of businesses and intangibles, net	(10,442)	(8,164)
Proceeds from sales of businesses, net	943	37,036
Franchise loans:		
Loans funded	(20,670)	(27,682)
Payments received	8,303	7,447
Other, net	9,275	13,685
Net cash used in investing activities	(64,079)	(127,120)
Cash flows from financing activities:		
Repayments of commercial paper	–	(37,989)
Proceeds from commercial paper	–	77,979
Repayments of long-term debt	(30,831)	–
Proceeds from issuance of long-term debt	497,185	–
Customer banking deposits, net	(37,913)	(129,285)
Dividends paid	(108,428)	(91,446)
Repurchase of common stock, including shares surrendered	(339,919)	(180,222)
Proceeds from exercise of stock options, net	1,288	(430)
Other, net	(33,004)	(28,057)
Net cash used in financing activities	(51,622)	(389,450)
Effects of exchange rates on cash	(696)	(6,035)
Net decrease in cash and cash equivalents	(683,433)	(1,105,233)
Cash and cash equivalents at beginning of the period	1,944,334	1,677,844
Cash and cash equivalents at end of the period	\$ 1,260,901	\$ 572,611
Supplementary cash flow data:		
Income taxes paid, net	\$ 48,201	\$ 122,832
Interest paid on borrowings	42,106	27,748
Interest paid on deposits	2,683	3,323
Transfers of foreclosed loans to other assets	5,312	4,438
Accrued additions to property and equipment	10,273	10,798

See Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies**Basis of Presentation**

The consolidated balance sheet as of October 31, 2012, the consolidated statements of operations and comprehensive income (loss) for the three and six months ended October 31, 2012 and 2011, and the condensed consolidated statements of cash flows for the six months ended October 31, 2012 and 2011 have been prepared by the Company, without audit. In the opinion of management, all adjustments, which include only normal recurring adjustments, necessary to present fairly the financial position, results of operations and cash flows at October 31, 2012 and for all periods presented have been made. See note 14 for discussion of our presentation of discontinued operations.

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

Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted. These consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in our April 30, 2012 Annual Report to Shareholders on Form 10-K. All amounts presented herein as of April 30, 2012 or for the year then ended, are derived from our April 30, 2012 Annual Report to Shareholders on Form 10-K.

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. Significant estimates, assumptions and judgments are applied in the determination of contingent losses arising from our discontinued mortgage business, contingent losses associated with pending claims and litigation, allowance for loan losses, fair value of reporting units, valuation allowances based on future taxable income, reserves for uncertain tax positions and related matters. Estimates have been prepared on the basis of the most current and best information available as of each balance sheet date. As such, actual results could differ materially from those estimates.

Seasonality of Business

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

2. Loss Per Share and Stockholders' Equity

Basic and diluted loss per share is computed using the two-class method. The two-class method is an earnings allocation formula that determines net income per share for each class of common stock and participating security according to dividends declared and participation rights in undistributed earnings. Per share amounts are computed by dividing net income from continuing operations attributable to common shareholders by the weighted average shares outstanding during each period. The dilutive effect of potential common shares is included in diluted earnings per share except in those periods with a loss from continuing operations. Diluted earnings per share excludes the impact of shares of common stock issuable upon the lapse of certain restrictions or the exercise of options to purchase 8.9 million shares for the three and six months ended October 31, 2012, and 13.0 million shares for the three and six months ended October 31, 2011, as the effect would be antidilutive due to the net loss from continuing operations during those periods.

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

	(in 000s, except per share amounts)			
	Three months ended		Six months ended	
	October 31,		October 31,	
	2012	2011	2012	2011
Net loss from continuing operations attributable to shareholders	\$ (101,199)	\$ (123,013)	\$ (206,849)	\$ (242,168)
Amounts allocated to participating securities (nonvested shares)	64	62	137	176
Net loss from continuing operations attributable to common shareholders	<u>\$ (101,263)</u>	<u>\$ (123,075)</u>	<u>\$ (206,986)</u>	<u>\$ (242,344)</u>
Basic weighted average common shares	271,145	299,895	274,150	302,693
Potential dilutive shares	—	—	—	—
Dilutive weighted average common shares	<u>271,145</u>	<u>299,895</u>	<u>274,150</u>	<u>302,693</u>
Loss per share from continuing operations:				
Basic	\$ (0.37)	\$ (0.41)	\$ (0.76)	\$ (0.80)
Diluted	<u>(0.37)</u>	<u>(0.41)</u>	<u>(0.76)</u>	<u>(0.80)</u>

The weighted average shares outstanding for the three and six months ended October 31, 2012 decreased to 271.1 million and 274.2 million, respectively, from 299.9 million and 302.7 million for the three and six months ended October 31, 2011, respectively, primarily due to share repurchases completed during fiscal years 2013 and 2012. During the six months ended October 31, 2012, we purchased and immediately retired 21.3 million shares of our common stock at a cost of \$315.0 million. The cost of shares retired during the current period was allocated to the components of stockholders' equity as follows:

	(in 000s)
Common stock	\$ 213
Additional paid-in capital	12,542
Retained earnings	302,245
	<u>\$ 315,000</u>

During the six months ended October 31, 2011, we purchased and immediately retired 13.0 million shares of our common stock at a cost of \$177.5 million.

In addition to the shares we repurchased as described above, during the six months ended October 31, 2012, we acquired 0.1 million shares of our common stock at an aggregate cost of \$2.4 million. These shares represent shares swapped or surrendered to us in connection with the vesting or exercise of stock-based awards. During the six months ended October 31, 2011, we acquired 0.2 million shares at an aggregate cost of \$2.7 million for similar purposes.

We also retired 60.0 million shares of treasury stock during the six months ended October 31, 2012. This retirement of treasury stock had no impact on our total consolidated stockholders' equity. The cost of treasury shares retired during the current period was allocated to the following components of stockholders' equity:

	(in 000s)
Common stock	\$ 600
Additional paid-in capital	35,400
Retained earnings	1,104,797
Total cost allocated	1,140,797
Less cost of treasury shares retired	<u>(1,140,797)</u>
Net impact on consolidated stockholders' equity	<u>\$ —</u>

During the six months ended October 31, 2012 and 2011, we issued 0.5 million and 0.8 million shares of common stock, respectively, due to the vesting or exercise of stock-based awards.

During the six months ended October 31, 2012, we granted 0.3 million stock options and 1.4 million nonvested units under our stock-based compensation plans. The weighted average fair value of options

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granted was \$2.36. Stock options or nonvested units granted generally either vest over a three year period with one-third vesting each year or cliff vest at the end of a three-year period. Stock-based compensation expense of our continuing operations totaled \$5.4 million and \$7.8 million for the three and six months ended October 31, 2012, respectively, \$4.5 million and \$7.8 million for the three and six months ended October 31, 2011, respectively. At October 31, 2012, unrecognized compensation cost for options totaled \$5.2 million, and for nonvested shares and units totaled \$28.4 million.

3. Receivables

Short-term receivables of our continuing operations consist of the following:

As of	(in 000s)		
	October 31, 2012	October 31, 2011	April 30, 2012
Loans to franchisees	\$ 69,110	\$ 67,594	\$ 61,252
Receivables for tax preparation and related fees	34,083	34,561	42,286
Emerald Advance lines of credit	23,630	29,929	23,717
Royalties from franchisees	8,744	5,389	5,781
Other	31,705	39,001	105,411
	167,272	176,474	238,447
Allowance for doubtful accounts	(42,761)	(48,412)	(44,589)
	<u>\$ 124,511</u>	<u>\$ 128,062</u>	<u>\$ 193,858</u>

The short-term portion of Emerald Advance lines of credit (EAs) and loans made to franchisees is included in receivables, while the long-term portion is included in other assets in the consolidated balance sheets. These amounts are as follows:

As of	Emerald Advance Lines of Credit		Loans to Franchisees
	(in 000s)		
As of October 31, 2012:			
Short-term	\$ 23,630	\$ 69,110	
Long-term	10,825	119,102	
	<u>\$ 34,455</u>	<u>\$ 188,212</u>	
As of October 31, 2011:			
Short-term	\$ 29,929	\$ 67,594	
Long-term	17,749	130,280	
	<u>\$ 47,678</u>	<u>\$ 197,874</u>	
As of April 30, 2012:			
Short-term	\$ 23,717	\$ 61,252	
Long-term	13,007	109,837	
	<u>\$ 36,724</u>	<u>\$ 171,089</u>	

We review the credit quality of our EA receivables based on pools, which are segregated by the year of origination, with older years being deemed more unlikely to be repaid. These amounts as of October 31, 2012, by year of origination, are as follows:

	(in 000s)	
2012	\$	7,187
2011		6,260
2010		3,509
2009 and prior		5,085
Revolving loans		12,414
	<u>\$</u>	<u>34,455</u>

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As of October 31, 2012 and April 30, 2012, \$30.3 million and \$31.4 million, respectively, of EAs were on non-accrual status and classified as impaired, or more than 60 days past due.

Loans made to franchisees at October 31, 2012 totaled \$188.2 million, and consisted of \$136.9 million in term loans and \$51.3 million in revolving lines of credit made to existing franchisees primarily for the purpose of funding off-season working capital needs. Loans made to franchisees at April 30, 2012 totaled \$171.1 million, and consisted of \$127.0 million in term loans and \$44.1 million in revolving lines of credit. As of October 31, 2012, we had no loans to franchisees that were past due or on non-accrual status.

Activity in the allowance for doubtful accounts for the six months ended October 31, 2012 and 2011 is as follows:

	(in 000s)			
	Emerald Advance Lines of Credit	Loans to Franchisees	All Other	Total
Balance as of April 30, 2012	\$ 6,200	\$ –	\$ 38,389	\$ 44,589
Provision	310	–	840	1,150
Charge-offs	–	–	(2,978)	(2,978)
Balance as of October 31, 2012	<u>\$ 6,510</u>	<u>\$ –</u>	<u>\$ 36,251</u>	<u>\$ 42,761</u>
Balance as of April 30, 2011	\$ 4,400	\$ –	\$ 43,543	\$ 47,943
Provision	1,530	–	828	2,358
Charge-offs	–	–	(1,889)	(1,889)
Balance as of October 31, 2011	<u>\$ 5,930</u>	<u>\$ –</u>	<u>\$ 42,482</u>	<u>\$ 48,412</u>

There were no changes to our methodology related to the calculation of our allowance for doubtful accounts during the six months ended October 31, 2012.

4. Mortgage Loans Held for Investment and Related Assets

The composition of our mortgage loan portfolio as of October 31, 2012 and April 30, 2012 is as follows:

As of	(dollars in 000s)			
	October 31, 2012		April 30, 2012	
	Amount	% of Total	Amount	% of Total
Adjustable-rate loans	\$ 210,610	55%	\$ 238,442	56%
Fixed-rate loans	175,257	45%	190,870	44%
	385,867	100%	429,312	100%
Unamortized deferred fees and costs	3,108		3,429	
Less: Allowance for loan losses	(18,125)		(26,540)	
	<u>\$ 370,850</u>		<u>\$ 406,201</u>	

Our loan loss allowance as a percent of mortgage loans was 4.7% at October 31, 2012, compared to 6.2% at April 30, 2012.

Activity in the allowance for loan losses for the six months ended October 31, 2012 and 2011 is as follows:

Six months ended October 31,	(in 000s)	
	2012	2011
Balance, beginning of the period	\$ 26,540	\$ 92,087
Provision	6,750	12,750
Recoveries	2,291	88
Charge-offs	(17,456)	(13,546)
Balance, end of the period	<u>\$ 18,125</u>	<u>\$ 91,379</u>

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Our allowance decreased significantly from the prior year primarily due to a change in the fourth quarter of fiscal year 2012, whereby we now charge-off loans 180 days past due to the value of the collateral less costs to sell. This change did not have a significant impact on our provision recorded during the six months ended October 31, 2012.

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

(in 000s)

As of	October 31, 2012		April 30, 2012	
	Portfolio Balance	Related Allowance	Portfolio Balance	Related Allowance
Pooled	\$ 229,761	\$ 6,892	\$ 248,772	\$ 9,237
Impaired:				
Individually (TDRs)	63,602	5,972	71,949	7,752
Individually	92,504	5,261	108,591	9,551
	<u>\$ 385,867</u>	<u>\$ 18,125</u>	<u>\$ 429,312</u>	<u>\$ 26,540</u>

Our portfolio includes loans originated by Sand Canyon Corporation, previously known as Option One Mortgage Corporation, and its subsidiaries (SCC) and purchased by H&R Block Bank (HRB Bank), which constitute 57% of the total loan portfolio at October 31, 2012. We have experienced higher rates of delinquency and believe that we have greater exposure to loss with respect to this segment of our loan portfolio. Our remaining loan portfolio totaled \$164.8 million at October 31, 2012 and is characteristic of a prime loan portfolio, and we believe therefore subject to a lower loss exposure. Detail of our mortgage loans held for investment and the related allowance at October 31, 2012 is as follows:

(dollars in 000s)

	Outstanding		Loan Loss Allowance		% 30+ Days Past Due
	Principal Balance	Amount	% of Principal		
Purchased from SCC	\$ 221,064	\$ 14,152	6.4%		33.9%
All other	164,803	3,973	2.4%		8.7%
	<u>\$ 385,867</u>	<u>\$ 18,125</u>	<u>4.7%</u>		<u>23.1%</u>

Credit quality indicators at October 31, 2012 include the following:

(in 000s)

Credit Quality Indicators	Purchased from SCC		All Other		Total Portfolio
Occupancy status:					
Owner occupied	\$ 161,298	\$ 105,584	\$ 266,882		
Non-owner occupied	59,766	59,219	118,985		
	<u>\$ 221,064</u>	<u>\$ 164,803</u>	<u>\$ 385,867</u>		
Documentation level:					
Full documentation	\$ 72,086	\$ 120,286	\$ 192,372		
Limited documentation	7,003	17,240	24,243		
Stated income	122,577	16,814	139,391		
No documentation	19,398	10,463	29,861		
	<u>\$ 221,064</u>	<u>\$ 164,803</u>	<u>\$ 385,867</u>		
Internal risk rating:					
High	\$ 72,880	\$ -	\$ 72,880		
Medium	148,184	-	148,184		
Low	-	164,803	164,803		
	<u>\$ 221,064</u>	<u>\$ 164,803</u>	<u>\$ 385,867</u>		

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Loans given our internal risk rating of "high" were originated by SCC, and generally had no documentation or were based on stated income. Loans given our internal risk rating of "medium" were generally full documentation or based on stated income, with loan-to-value ratios at origination of more than 80%, and were made to borrowers with credit scores below 700 at origination. Loans given our internal risk rating of "low" were generally full documentation, with loan-to-value ratios at origination of less than 80% and were made to borrowers with credit scores greater than 700 at origination.

Our mortgage loans held for investment include concentrations of loans to borrowers in certain states, which may result in increased exposure to loss as a result of changes in real estate values and underlying economic or market conditions related to a particular geographical location. Approximately 58% of our mortgage loan portfolio consists of loans to borrowers located in the states of Florida, California, New York and Wisconsin.

Detail of the aging of the mortgage loans in our portfolio as of October 31, 2012 is as follows:

	(in 000s)					
	Less than 60 Days Past Due	60–89 Days Past Due	90+ Days Past Due ⁽¹⁾	Total Past Due	Current	Total
Purchased from SCC	\$ 21,741	\$ 3,313	\$ 69,812	\$ 94,866	\$ 126,198	\$ 221,064
All other	6,566	900	13,375	20,841	143,962	164,803
	<u>\$ 28,307</u>	<u>\$ 4,213</u>	<u>\$ 83,187</u>	<u>\$ 115,707</u>	<u>\$ 270,160</u>	<u>\$ 385,867</u>

⁽¹⁾ We do not accrue interest on loans past due 90 days or more.

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

As of	October 31, 2012		April 30, 2012	
	(in 000s)			
Loans:				
Purchased from SCC	\$	75,414	\$	88,347
Other		16,427		16,626
		<u>91,841</u>		<u>104,973</u>
TDRs:				
Purchased from SCC		3,776		3,166
Other		506		1,270
		<u>4,282</u>		<u>4,436</u>
Total non-accrual loans	\$	96,123	\$	109,409

Information related to impaired loans is as follows:

	(in 000s)			
	Balance With Allowance	Balance With No Allowance	Total Impaired Loans	Related Allowance
As of October 31, 2012:				
Purchased from SCC	\$ 40,142	\$ 90,516	\$ 130,658	\$ 7,992
Other	7,951	17,497	25,448	3,241
	<u>\$ 48,093</u>	<u>\$ 108,013</u>	<u>\$ 156,106</u>	<u>\$ 11,233</u>
As of April 30, 2012:				
Purchased from SCC	\$ 56,128	\$ 97,591	\$ 153,719	\$ 14,917
Other	7,137	19,684	26,821	2,386
	<u>\$ 63,265</u>	<u>\$ 117,275</u>	<u>\$ 180,540</u>	<u>\$ 17,303</u>

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

	(in 000s)	
As of	October 31, 2012	April 30, 2012
Portion of total allowance for loan losses allocated to impaired loans and TDR loans:		
Based on collateral value method	\$ 5,261	\$ 9,551
Based on discounted cash flow method	5,972	7,752
	<u>\$ 11,233</u>	<u>\$ 17,303</u>

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

	(in 000s)	
Six months ended October 31,	2012	2011
Average impaired loans:		
Purchased from SCC	\$ 141,521	\$ 226,880
All other	26,343	35,525
	<u>\$ 167,864</u>	<u>\$ 262,405</u>
Interest income on impaired loans:		
Purchased from SCC	\$ 1,992	\$ 3,076
All other	158	238
	<u>\$ 2,150</u>	<u>\$ 3,314</u>
Interest income on impaired loans recognized on a cash basis on non-accrual status:		
Purchased from SCC	\$ 1,956	\$ 2,973
All other	145	224
	<u>\$ 2,101</u>	<u>\$ 3,197</u>

Activity related to our real estate owned (REO) is as follows:

	(in 000s)	
Six months ended October 31,	2012	2011
Balance, beginning of the period	\$ 14,972	\$ 19,532
Additions	5,312	4,438
Sales	(5,189)	(6,303)
Writedowns	(1,278)	(1,706)
Balance, end of the period	<u>\$ 13,817</u>	<u>\$ 15,961</u>

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5. Investments in Available-for-Sale Securities

The amortized cost and fair value of securities classified as available-for-sale (AFS) held at October 31, 2012 and April 30, 2012 are summarized below:

As of	October 31, 2012				April 30, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses ⁽¹⁾	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses ⁽¹⁾	Fair Value
Short-term:								
Municipal bonds	\$ 1,003	\$ 11	\$ -	\$ 1,014	\$ 1,008	\$ 29	\$ -	\$ 1,037
Long-term:								
Mortgage-backed securities	378,055	6,116	(109)	384,062	361,184	5,620	(121)	366,683
Municipal bonds	4,207	371	-	4,578	4,236	396	-	4,632
	<u>382,262</u>	<u>6,487</u>	<u>(109)</u>	<u>388,640</u>	<u>365,420</u>	<u>6,016</u>	<u>(121)</u>	<u>371,315</u>
Total	\$ <u>383,265</u>	\$ <u>6,498</u>	\$ <u>(109)</u>	\$ <u>389,654</u>	\$ <u>366,428</u>	\$ <u>6,045</u>	\$ <u>(121)</u>	\$ <u>372,352</u>

⁽¹⁾ At October 31, 2012, mortgage-backed securities with a cost of \$4.6 million and gross unrealized losses of \$1 thousand had been in a continuous loss position for more than twelve months. At April 30, 2012, mortgage-backed securities with a cost of \$8.1 million and gross unrealized losses of \$21 thousand had been in a continuous loss position for more than twelve months.

During the six months ended October 31, 2012, we received proceeds from the sale of AFS securities of \$5.2 million and recorded a gross realized gain of \$0.2 million on this sale. We had no sales of AFS securities during the six months ended October 31, 2011.

Contractual maturities of AFS debt securities at October 31, 2012, occur at varying dates over the next 30 years, and are set forth in the table below.

As of October 31, 2012	Cost Basis		Fair Value
			(in 000s)
Maturing in:			
Less than one year	\$	1,003	\$ 1,014
Two to five years		4,207	4,578
More than five years		378,055	384,062
	\$	<u>383,265</u>	\$ <u>389,654</u>

6. Goodwill and Intangible Assets

Changes in the carrying amount of goodwill for the six months ended October 31, 2012 consist of the following:

	(in 000s)
	Tax Services
Balance at April 30, 2012:	
Goodwill	\$ 459,863
Accumulated impairment losses	(32,297)
	<u>427,566</u>
Changes:	
Acquisitions	6,922
Disposals and foreign currency changes, net	4
Balance at October 31, 2012:	
Goodwill	466,789
Accumulated impairment losses	(32,297)
	<u>\$ 434,492</u>

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We test goodwill 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.

Intangible assets of our Tax Services segment consist of the following:

As of	October 31, 2012			April 30, 2012		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Customer relationships	\$ 95,647	\$ (50,151)	\$ 45,496	\$ 90,433	\$ (46,504)	\$ 43,929
Noncompete agreements	22,313	(21,525)	788	22,337	(21,425)	912
Reacquired franchise rights	214,330	(16,143)	198,187	214,330	(14,083)	200,247
Franchise agreements	19,201	(5,014)	14,187	19,201	(4,373)	14,828
Purchased technology	14,700	(11,495)	3,205	14,700	(10,665)	4,035
Trade name	1,300	(867)	433	1,300	(800)	500
	<u>\$ 367,491</u>	<u>\$ (105,195)</u>	<u>\$ 262,296</u>	<u>\$ 362,301</u>	<u>\$ (97,850)</u>	<u>\$ 264,451</u>

(in 000s)

Amortization of intangible assets of our continuing operations for the three and six months ended October 31, 2012 totaled \$5.5 and \$9.8 million, respectively. Amortization of intangible assets of our continuing operations for the three and six months ended October 31, 2011 totaled \$5.4 and \$10.5 million, respectively. Additionally, we recorded an impairment of customer relationships of \$4.0 million during the prior year period related to the discontinuation of the ExpressTax brand. Estimated amortization of intangible assets for fiscal years 2013 through 2017 is \$16.9 million, \$15.2 million, \$12.0 million, \$11.4 million and \$10.8 million, respectively.

7. Borrowings

Borrowings consist of the following:

As of	October 31, 2012		October 31, 2011		April 30, 2012	
Commercial paper outstanding	\$	–	\$	39,990	\$	–
Senior Notes, 7.875%, due January 2013	\$	599,975	\$	599,851	\$	599,913
Senior Notes, 5.125%, due October 2014		399,530		399,294		399,412
Senior Notes, 5.500%, due November 2022		497,190		–		–
Other		10,108		40,786		41,224
Total long-term debt		1,506,803		1,039,931		1,040,549
Less: Current portion		(600,678)		(30,735)		(631,434)
	\$	<u>906,125</u>	\$	<u>1,009,196</u>	\$	<u>409,115</u>

(in 000s)

We filed a registration statement on Form S-3 on October 9, 2012. On October 25, 2012, we issued \$500.0 million of 5.50% Senior Notes under this registration statement. The Senior Notes are due November 1, 2022, and are not redeemable by the bondholders prior to maturity, although we have the right to redeem some or all of these notes at any time, at specified redemption prices. On October 25, 2012, we provided notice to the trustee of our intention to redeem the entire principal amount of the \$600.0 million Senior Notes due in January 2013. The redemption settled on November 26, 2012 at a price of \$623.0 million, which included full payment of principal, a make-whole premium of \$5.8 million and interest accrued up to the redemption date of \$17.2 million. Proceeds of the \$500.0 million Senior Notes and other cash balances were used to repay the \$600.0 million Senior Notes. We will recognize a loss on the extinguishment of this debt of approximately \$6 million during our third quarter of the current fiscal year, which primarily represents the interest that would have been paid on these notes if they had not been redeemed prior to maturity.

In August 2012, we terminated our previous committed line of credit (CLOC) agreement and we entered into a new five-year, \$1.5 billion Credit and Guarantee Agreement (2012 CLOC). Funds available under the 2012 CLOC may be used for general corporate purposes or for working capital needs.

The 2012

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CLOC bears interest at an annual rate of LIBOR plus an applicable rate ranging from 0.750% to 1.45% or PRIME plus an applicable rate ranging from 0.000% to 0.450% (depending on the type of borrowing and our then current credit ratings) and includes an annual facility fee ranging from 0.125% to 0.300% of the committed amounts (also depending on our then current credit ratings). The 2012 CLOC is subject to various conditions, triggers, events or occurrences that could result in earlier termination and contains customary representations, warranties, covenants and events of default, including, without limitation: (1) a covenant requiring the Company to maintain a debt-to-EBITDA ratio calculated on a consolidated basis of no greater than (a) 3.50 for the fiscal quarters ending on April 30, July 31, and October 31 of each year and (b) 3.75 for the fiscal quarter ending on January 31 of each year, (2) a covenant requiring us to maintain an interest coverage (EBITDA-to-interest expense) ratio calculated on a consolidated basis of not less than 2.50 as of the last date of any fiscal quarter, and (3) covenants restricting our ability to incur additional debt, incur liens, merge or consolidate with other companies, sell or dispose of their respective assets (including equity interests), liquidate or dissolve, make investments, loans, advances, guarantees and acquisitions, and engage in certain transactions with affiliates or certain restrictive agreements. The 2012 CLOC includes provisions for an equity cure which could potentially allow us to independently cure a default. We had no balances outstanding under the 2012 CLOC at October 31, 2012. However, we may borrow amounts under the 2012 CLOC from time to time in the future to support working capital requirements or for other general corporate purposes.

8. Fair Value Measurement

We use the following classification of financial instruments pursuant to the fair value hierarchy methodologies for assets measured at fair value:

- Level 1 – inputs to the valuation are quoted prices in an active market for identical assets.
- Level 2 – inputs to the valuation include quoted prices for similar assets in active markets utilizing a third-party pricing service to determine fair value.
- Level 3 – valuation is based on significant inputs that are unobservable in the market and our own estimates of assumptions that we believe market participants would use in pricing the asset.

Financial instruments are broken down in the tables that follow by recurring or nonrecurring measurement status. Recurring assets are initially measured at fair value and are required to be remeasured at fair value in the financial statements at each reporting date. Assets measured on a nonrecurring basis are assets that, as a result of an event or circumstance, were required to be remeasured at fair value after initial recognition in the financial statements at some time during the reporting period.

The following table presents the assets that were remeasured at fair value on a recurring basis during the six months ended October 31, 2012 and 2011 and the unrealized gains on those remeasurements:

	(dollars in 000s)				
	Total	Level 1	Level 2	Level 3	Gain
October 31, 2012:					
Mortgage-backed securities	\$ 384,062	\$ –	\$ 384,062	\$ –	\$ 6,007
Municipal bonds	5,592	–	5,592	–	382
	<u>\$ 389,654</u>	<u>\$ –</u>	<u>\$ 389,654</u>	<u>\$ –</u>	<u>\$ 6,389</u>
As a percentage of total assets	10.0%	–%	10.0%	–%	
October 31, 2011:					
Mortgage-backed securities	\$ 300,664	\$ –	\$ 300,664	\$ –	\$ 3,507
Municipal bonds	7,675	–	7,675	–	390
	<u>\$ 308,339</u>	<u>\$ –</u>	<u>\$ 308,339</u>	<u>\$ –</u>	<u>\$ 3,897</u>
As a percentage of total assets	7.8%	–%	7.8%	–%	

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Our AFS securities are carried at fair value on a recurring basis. These include certain agency and agency-sponsored mortgage-backed securities and municipal bonds. Quoted market prices are not available for these securities. As a result, we use a third-party pricing service to determine fair value and classify the securities as Level 2. The service's pricing model is based on market data and utilizes available trade, bid and other market information for similar securities. The fair values provided by third-party pricing service are reviewed and validated by management of HRB Bank. There were no transfers of AFS securities between hierarchy levels during the six months ended October 31, 2012 and 2011.

The following table presents the assets that were remeasured at fair value on a non-recurring basis during the six months ended October 31, 2012 and 2011 and the realized losses on those remeasurements:

	(dollars in 000s)				
	Total	Level 1	Level 2	Level 3	Loss
October 31, 2012:					
REO	\$ 14,646	\$ –	\$ –	\$ 14,646	\$ (203)
Impaired mortgage loans held for investment	89,032	–	–	89,032	(7,298)
	<u>\$ 103,678</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 103,678</u>	<u>\$ (7,501)</u>
As a percentage of total assets	2.7%	–%	–%	2.7%	
October 31, 2011:					
REO	16,918	–	–	16,918	(485)
Impaired mortgage loans held for investment	114,394	–	–	114,394	(6,672)
	<u>\$ 131,312</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 131,312</u>	<u>\$ (7,157)</u>
As a percentage of total assets	3.3%	–%	–%	3.3%	

The following methods were used to estimate the fair value of each class of financial instrument above:

- Real estate owned – REO includes foreclosed properties securing mortgage loans. Foreclosed assets are recorded at estimated fair value, generally based on independent market prices or appraised values of the collateral, less costs to sell upon foreclosure. The assets are remeasured quarterly based on independent appraisals or broker price opinions. Subsequent holding period gains and losses arising from the sale of REO are reported when realized. Because our REO is valued based on significant inputs that are unobservable in the market and our own estimates of assumptions that we believe market participants would use in pricing the asset, these assets are classified as Level 3.
- Impaired mortgage loans held for investment – The fair value of impaired mortgage loans held for investment is generally based on the net present value of discounted cash flows for TDR loans or the appraised value of the underlying collateral for all other loans. Impaired and TDR loans are required to be evaluated at least annually, based on HRB Bank's Loan Policy. Impaired loans are typically remeasured every six months, while TDRs are evaluated quarterly. These loans are classified as Level 3.

We have established various controls and procedures to ensure that the unobservable inputs used in the fair value measurement of these instruments are appropriate. Appraisals are obtained from certified appraisers and reviewed internally by HRB Bank's asset management group. The inputs and assumptions used in our discounted cash flow model for TDRs are reviewed and approved by the management team of HRB Bank each time the balances are remeasured. Significant changes in fair value from the previous measurement are presented to HRB Bank management for approval. There were no changes to the unobservable inputs used in determining the fair values of our Level 3 financial assets.

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The following table presents the quantitative information about our Level 3 fair value measurements:

		Fair Value at October 31, 2012	Valuation Technique	Unobservable Input	Range (Weighted Average)
REO	\$	13,817	Third party pricing	Cost to list/sell Loss severity	5% - 36% (6%) 0% - 100% (52%)
Impaired mortgage loans held for investment – non-TDRs	\$	87,243	Collateral- based	Cost to list/sell Time to sell (months) Collateral depreciation	0% - 30% (7%) 24 (24) (38%) - 100% (46%)
Impaired mortgage loans held for investment – TDRs	\$	57,630	Discounted cash flow	Aged default performance Loss severity	30% - 55% (42%) 0% - 21% (4%)

9. Fair Value of Financial Instruments

The carrying amounts and estimated fair values of our financial instruments are as follows:

As of	October 31, 2012		April 30, 2012		Fair Value Hierarchy
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value	
Assets:					
Cash and cash equivalents	\$ 1,260,901	\$ 1,260,901	\$ 1,944,334	\$ 1,944,334	Level 1
Cash and cash equivalents – restricted	38,667	38,667	48,100	48,100	Level 1
Receivables, net – short-term	124,511	124,511	193,858	193,858	Level 1
Mortgage loans held for investment, net	370,850	226,885	406,201	248,535	Level 3
Investments in available-for-sale securities	389,654	389,654	372,352	372,352	Level 2
Receivables, net – long-term	134,359	134,359	127,468	127,468	Level 1 & 3
Note receivable (including interest)	58,049	64,508	55,444	55,444	Level 3
Liabilities:					
Deposits	795,519	795,227	833,047	831,251	Level 1 & 3
Long-term debt	1,506,803	1,540,333	1,040,549	1,077,223	Level 3

Fair value estimates, methods and assumptions are set forth below. The fair value was not estimated for assets and liabilities that are not considered financial instruments.

- Cash and cash equivalents, including restricted – Fair value approximates the carrying amount.
- Receivables – short-term – For short-term balances, the carrying values reported in the balance sheet approximate fair market value due to the relative short-term nature of the respective instruments.
- Mortgage loans held for investment, net – The fair value of mortgage loans held for investment is determined using market pricing sources based on projected future cash flows of each individual asset, and loan characteristics including channel and performance characteristics.
- Investments in available-for-sale securities – We use a third-party pricing service to determine fair value. The service's pricing model is based on market data and utilizes available trade, bid and other market information for similar securities.
- Receivables – long-term – The carrying values for the long-term portion of loans to franchisees approximate fair market value due to the variable interest rates (Level 1). Long-term EA receivables are carried at net realizable value which approximates fair value (Level 3). Net realizable value is determined based on historical collection rates.
- Note receivable – The fair value of the long-term note receivable from McGladrey & Pullen LLP (M&P) assumes no prepayment and is determined using market pricing sources for similar instruments based on projected future cash flows.
- Deposits – The fair value of deposits with no stated maturity such as non-interest-bearing demand deposits, checking, money market and savings accounts is equal to the amount payable on demand (Level 1). The fair value of IRAs and other time deposits is estimated by discounting the future cash flows using the rates currently offered by HRB Bank for products with similar remaining maturities (Level 3).

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- Long-term debt – The fair value of borrowings is based on rates currently available to us for obligations with similar terms and maturities, including current market yields on our Senior Notes.

10. Income Taxes

We file a consolidated federal income tax return in the United States and file tax returns in various state and foreign jurisdictions. The U.S. federal consolidated tax returns for the years 1999 through 2010 are currently under examination by the Internal Revenue Service (IRS). In November 2012, we received written approval from the IRS Joint Committee on Taxation of the settlement of a majority of issues related to the examination of our 1999 through 2007 tax returns. Except for three issues for which we are pursuing refund claims for tax years 2002 through 2008, which will remain open until resolved, these years are closed. We are assessing the impact of the settlement which will reduce uncertain tax benefits by approximately \$60 million, a majority of which will result in an income tax benefit being recorded in the third quarter of the current fiscal year. Historically, tax returns in various foreign and state jurisdictions are examined and settled upon completion of the exam.

We had gross unrecognized tax benefits of \$207.4 million and \$206.4 million at October 31, 2012 and April 30, 2012, respectively. The gross unrecognized tax benefits increased \$1.0 million net in the current year, due primarily to accruals of tax on positions related to current and prior years partially offset by settlements with taxing authorities. We believe it is reasonably possible that the balance of unrecognized tax benefits could decrease by approximately \$76 million before October 31, 2013. This anticipated decrease is due primarily to the settlement of the 1999 through 2007 IRS examination. The expiration of statutes of limitations and anticipated settlements of state audit issues will also contribute to the anticipated decrease. This amount is included in accrued income taxes in our consolidated balance sheet. The remaining amount is classified as long-term and is included in other noncurrent liabilities in the consolidated balance sheet.

11. Interest Income and Expense

The following table shows the components of interest income and expense of our continuing operations:

	(in 000s)			
	Three months ended October 31,		Six months ended October 31,	
	2012	2011	2012	2011
Interest income:				
Mortgage loans, net	\$ 4,168	\$ 5,151	\$ 8,585	\$ 10,812
Loans to franchisees	2,391	2,525	4,746	4,867
AFS securities	1,753	862	3,392	1,723
Other	1,547	1,383	3,009	2,859
	<u>\$ 9,859</u>	<u>\$ 9,921</u>	<u>\$ 19,732</u>	<u>\$ 20,261</u>
Interest expense:				
Borrowings	\$ 21,995	\$ 21,114	\$ 42,749	\$ 42,243
Deposits	1,395	1,608	2,718	3,264
FHLB advances	–	151	–	302
	<u>\$ 23,390</u>	<u>\$ 22,873</u>	<u>\$ 45,467</u>	<u>\$ 45,809</u>

12. Commitments and Contingencies

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

Six months ended October 31,		(in 000s)	
	2012	2011	
Balance, beginning of period	\$ 141,080	\$ 140,603	
Amounts deferred for new guarantees issued	1,383	1,331	
Revenue recognized on previous deferrals	(45,555)	(46,073)	
Balance, end of period	<u>\$ 96,908</u>	<u>\$ 95,861</u>	

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In addition to amounts accrued for our POM guarantee, we had accrued \$14.7 million and \$16.3 million at October 31, 2012 and April 30, 2012, respectively, related to our standard guarantee, which is included with our standard tax preparation services. The current portion of this liability is included in accounts payable, accrued expenses and other current liabilities and the long-term portion is included in other noncurrent liabilities in the consolidated balance sheets.

We have recorded liabilities totaling \$10.3 million and \$6.8 million as of October 31, 2012 and April 30, 2012, respectively, in conjunction with contingent payments related to recent acquisitions of our continuing operations, with the short-term amount recorded in accounts payable, accrued expenses and deposits and the long-term portion included in other noncurrent liabilities. Our estimate is typically based on performance targets and financial conditions at the time of acquisition. Should actual results differ materially from our assumptions, the potential payments will differ from the above estimate and any differences will be recorded in our results from continuing operations.

We have contractual commitments to fund certain franchisees requesting revolving lines of credit. Our total obligation under these lines of credit was \$90.4 million at October 31, 2012, and net of amounts drawn and outstanding, our remaining commitment to fund totaled \$39.1 million.

We maintain compensating balances related to the 2012 CLOC, which are not legally restricted as to withdrawal. These balances totaled \$75.0 million as of October 31, 2012.

We routinely enter into contracts that include embedded indemnifications that have characteristics similar to guarantees. Other guarantees and indemnifications of the Company and its subsidiaries include obligations to protect counterparties from losses arising from the following: (1) tax, legal and other risks related to the purchase or disposition of businesses; (2) penalties and interest assessed by federal and state taxing authorities in connection with tax returns prepared for clients; (3) indemnification of our directors and officers; and (4) third-party claims relating to various arrangements in the normal course of business. Typically, there is no stated maximum payment related to these indemnifications, and the terms of the indemnities may vary and in many cases are 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 values of guarantees and indemnifications relating to our continuing operations are not material as of October 31, 2012.

Variable Interests

We evaluated our financial interests in variable interest entities (VIEs) as of October 31, 2012 and determined that there have been no significant changes related to those financial interests.

Discontinued Operations – Loss Contingencies Arising From Representations and Warranties

Overview. SCC ceased originating mortgage loans in December 2007 and, in April 2008, sold its servicing assets and discontinued its remaining operations. The sale of servicing assets did not include the sale of any mortgage loans.

Mortgage loans originated by SCC were sold either as whole loans to single third-party buyers or in the form of residential mortgage-backed securities (RMBSs). In connection with the sale of loans and/or RMBSs, SCC made certain representations and warranties. These representations and warranties varied based on the nature of the transaction and the buyer's or insurer's requirements, but generally pertained to the ownership of the loan, the validity of the lien securing the loan, borrower fraud, the loan's compliance with the criteria for inclusion in the transaction, including compliance with SCC's underwriting standards or loan criteria established by the buyer, ability to deliver required documentation, and compliance with applicable laws. Representations and warranties related to borrower fraud in whole loan sale transactions to institutional investors, which represented approximately 68% of the disposal of loans originated in calendar years 2005, 2006 and 2007, included a "knowledge qualifier" limiting SCC's liability to those instances where SCC had knowledge of the fraud at the time the loans were sold. Representations and warranties made in other sale transactions effectively did not include a knowledge qualifier as to borrower fraud. In the event that there is a breach of a representation and warranty and such breach materially and adversely affects the value of a mortgage loan or a securitization insurer's or bondholder's interest in the mortgage loan and, as discussed below, the mortgage has not been liquidated, SCC may be obligated to repurchase the loan, may be obligated to indemnify certain parties, or may enter into

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settlement arrangements related to losses, collectively referred to as "representation and warranty claims."

Claim History. Representation and warranty claims received by SCC have primarily related to alleged breaches of representations and warranties related to a loan's compliance with the underwriting standards established by SCC at origination and borrower fraud. Claims received since May 1, 2008 are as follows:

(in millions)

	Fiscal Year		Fiscal Year 2011				Fiscal Year 2012				Fiscal Year 2013		Total
	2009	2010	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	
Loan Origination Year:													
2005	\$ 62	\$ 15	\$ 6	\$ 1	\$ -	\$ 1	\$ -	\$ -	\$ 4	\$ -	\$ 18	\$ -	\$ 107
2006	217	108	100	15	29	50	29	130	29	137	123	7	974
2007	153	22	3	5	4	4	2	353	2	406	1	3	958
Total	\$ 432	\$ 145	\$ 109	\$ 21	\$ 33	\$ 55	\$ 31	\$ 483	\$ 35	\$ 543	\$ 142	\$ 10	\$ 2,039

Note: The table above excludes amounts related to indemnity agreements.

SCC received \$152 million in claims during the six months ended October 31, 2012, most of which were asserted by a private-label securitization trustee on behalf of certificate holders (\$136 million) monoline insurers (\$14 million) and the remainder asserted by Fannie Mae (\$2 million). During the fiscal year ended April 30, 2012, SCC received claims totaling \$1.1 billion. The amount of claims received varies from period to period, and these variances have been and are expected to continue to fluctuate substantially.

Nearly all claims asserted against SCC since May 1, 2008 relate to loans originated during calendar years 2005 through 2007. Approximately 95% of such claims relate to loans originated in calendar years 2006 and 2007. During calendar years 2005 through 2007, SCC originated approximately \$84 billion in loans, of which less than 1% were sold directly to government sponsored entities. Government sponsored entities also purchased bonds backed by SCC-originated mortgage loans and, with respect to these bonds, have the same rights as other certificate holders in private label securitizations. SCC may not be subject to representation and warranty losses on loans for a variety of reasons, including loans that have been paid in full, liquidated, repurchased, or were sold without recourse, among others.

Based on its experiences to date, SCC believes the longer a loan performs prior to an event of default, the less likely the default will be related to a breach of a representation and warranty, and the less likely that SCC will have a contractual payment obligation with respect to such loan. The majority of claims asserted since May 1, 2008 determined by SCC to represent a valid breach of its representations and warranties relate to loans that became delinquent within the first two years following the origination of the mortgage loan. However, a loan that defaults within the first two years following the origination of the mortgage loan does not necessarily default due to a breach of a representation and warranty. Exclusive of loans that have been paid in full, repurchased or sold without recourse, loans originated in 2005, 2006 and 2007 that defaulted in the first two years totaled \$3.9 billion, \$6.1 billion and \$2.7 billion, respectively.

Reviewed Claims. Since May 2008, SCC has denied approximately 93% of all claims reviewed, excluding loans covered by other settlements. Of the denied claims, 1% related to loans that have been paid in full and 1% of claims were denied because they related to loans which have been liquidated. Losses on representation and warranty claims totaled approximately \$78 million and other settlements totaled approximately \$56 million for the period May 1, 2008 through October 31, 2012. Paid claim loss severity rates have approximated 62% and SCC has not observed any material trends related to average losses. Repurchased loans are considered held for sale and are included in prepaid expenses and other current assets on the consolidated balance sheets. The net balance of all mortgage loans and REO held for sale by SCC was \$7.3 million at October 31, 2012.

SCC generally has 60 to 120 days to respond to a claimed breach of a representation and warranty and performs a loan-by-loan review of all claims during this time. Counterparties are able to reassert claims that SCC has denied. Claims totaling approximately \$28 million remained subject to review as of October 31, 2012, of which, approximately \$16 million represent a reassertion of previously denied claims.

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Liability for Estimated Contingent Losses. SCC estimates probable losses arising from representations and warranties on loans it originated by assessing claim activity, both known and projected. Projections of future claims are based on an analysis that includes a review of the terms and provisions of related agreements, the historical claim and validity rate experience and inquiries from various third-parties. SCC's methodology for calculating this liability also includes an assessment of the probability that individual counterparties (private label securitization trustees on behalf of certificate holders, monoline insurers and whole-loan purchasers) will assert future claims.

SCC has accrued a liability as of October 31, 2012 for estimated contingent losses arising from representations and warranties on loans it originated of \$129.3 million, which represents SCC's estimate of the probable loss that may occur. While SCC uses what it believes to be the best information available to it in estimating its liability, assessing the likelihood that claims will be asserted in the future and estimating probable losses are inherently subjective and require considerable management judgment. To the extent that the volume of claims, the level of claims (including whether the loan has been liquidated), the level of disputed claims, the counterparties asserting claims, the nature and severity of claims, the outcome of various litigation related to claims, or the value of residential home prices, among other factors, differ in the future from current estimates, future losses may differ from the current estimates and those differences may be significant.

Because the rate at which future claims may be determined to be valid and actual loss severity rates may differ significantly from historical experience, SCC is not able to estimate reasonably possible loss outcomes in excess of its current accrual. A 1% increase in loss severities and a 1% decrease in assumed denial rates would result in losses beyond SCC's accrual of approximately \$27 million. This sensitivity is hypothetical and is intended to provide an indication of the impact of a change in key assumptions on this loss contingency. In reality, changes in one assumption may result in changes in other assumptions, which could affect the sensitivity and the amount of losses.

A rollforward of SCC's accrued liability for these loss contingencies is as follows:

	(in 000s)	
Six months ended October 31,	2012	2011
Balance at beginning of period	\$ 130,018	\$ 126,260
Provisions	-	20,000
Payments	(753)	(3,337)
Balance at end of period	<u>\$ 129,265</u>	<u>\$ 142,923</u>

The recent federal court decision styled *MASTR Asset Backed Securities Trust 2006-HE3 v. WMC Mortgages* (Case No. 11-CV-2542 (JRT/TNL), 2012 WL 4511065 (D. Minn.), the "WMC Decision"), decided on October 1, 2012, recognizes the liquidation of a mortgage loan in a foreclosure sale as a defense to representation and warranty claims and related litigation. Specifically, the court noted that under the law of many states, including New York (which was applicable in the case at hand and governs most of SCC's purchase agreements for mortgage loans), a foreclosure decree operates to merge the interest of the mortgagor and mortgagee and, consequently, foreclosure on the properties securing the mortgage loan extinguishes it and renders it unavailable for repurchase. Consistent with this approach, SCC is taking the legal position where appropriate, for both contractual representation and warranty claims and similar claims in litigation, that a valid representation and warranty claim cannot be made with respect to a mortgage loan that has been liquidated. However, the WMC Decision is subject to appeal and it is anticipated that the liquidated mortgage loan defense will be the subject of future judicial decisions. Until the liquidated mortgage loan defense is further validated in the courts or other developments occur, SCC's estimated accrual for representation and warranty claims will continue to be determined using its prior methodology, which does not take this defense into account.

Discontinued Operations – Loss Contingencies Arising from Indemnification Obligations

Losses may also be incurred with respect to various indemnification claims, including claims by depositors and underwriters, related to loans and securities SCC originated and sold. Losses from indemnification obligations can be significant and are frequently not subject to a stated term or limit. SCC believes it is not probable that it will be required to perform under its indemnification obligations; however, there can be no

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assurances as to the outcome or impact on our consolidated financial position, results of operations and cash flows related to claims which may arise from those indemnification obligations.

In connection with the sale of RSM McGladrey, Inc. (RSM) and McGladrey Capital Markets LLC (MCM), we indemnified the buyers against certain litigation matters, as discussed in note 13. The indemnities are not subject to a stated term or limit.

13. Litigation and Related Contingencies

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

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

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

We accrue liabilities for litigation and regulatory loss contingencies when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. Liabilities have been accrued for a number of the matters noted below. If a range of loss is estimated, and some amount within that range appears to be a better estimate than any other amount within that range, then that amount is accrued. If no amount within the range can be identified as a better estimate than any other amount, we accrue the minimum amount in the range.

For such matters where a loss is believed to be reasonably possible, but not probable, or the loss cannot be reasonably estimated, no accrual has been made. It is possible that litigation and regulatory matters could require us to pay damages or make other expenditures or accrue liabilities in amounts that could not be reasonably estimated at October 31, 2012. While the potential future liabilities could be material in the particular quarterly or annual periods in which they are recorded, based on information currently known, we do not believe any such liabilities are likely to have a material effect on our consolidated financial position, results of operations and cash flows. As of October 31, 2012, we accrued liabilities of \$20.8 million, compared to \$79.0 million at April 30, 2012.

For some matters where a liability has not been accrued, we are able to estimate a reasonably possible range of loss. For those matters, and for matters where a liability has been accrued, as of October 31, 2012, we estimate the aggregate range of reasonably possible losses in excess of amounts accrued to be approximately \$0 to \$118 million, of which approximately 78% relates to our discontinued operations.

For other matters, we are not currently able to estimate the reasonably possible loss or range of loss. We are often unable to estimate the possible loss or range of loss until developments in such matters have provided sufficient information to support an assessment of the range of possible loss, such as quantification of a damage demand from plaintiffs, discovery from other parties and investigation of factual allegations, rulings by the court on motions or appeals, analysis by experts, and the progress of settlement negotiations. On a quarterly and annual basis, we review relevant information with respect to litigation and related contingencies and update our accruals, disclosures and estimates of reasonably possible losses or ranges of loss based on such reviews.

Litigation and Other Claims, Including Indemnification Claims, Pertaining to Discontinued Mortgage Operations

Although SCC ceased its mortgage loan origination activities in December 2007 and sold its loan servicing business in April 2008, SCC and the Company have been, remain, and may in the future be subject to regulatory investigations, claims, including indemnification claims, and lawsuits pertaining to SCC's mortgage business activities that occurred prior to such termination and sale. These investigations, claims and lawsuits include actions by state and federal regulators, third party indemnitees including depositors and underwriters, individual plaintiffs, and cases in which plaintiffs seek to represent a class of others alleged to be similarly situated. Among other things, these investigations, claims and lawsuits allege discriminatory or unfair and deceptive loan origination and servicing practices, fraud and other common law torts, rights to indemnification and violations of securities laws, the Truth in Lending Act (TILA), Equal Credit Opportunity Act and the Fair Housing Act. Given the impact of the financial crisis on the non-prime mortgage environment, the number of these investigations, claims and lawsuits has increased over time and is expected to continue to increase further. The amounts claimed in these investigations, claims and lawsuits are substantial in some instances, and the ultimate resulting liability is difficult to predict and thus in many cases cannot be reasonably estimated. In the event of unfavorable outcomes, the amounts that may be required to be paid in the discharge of liabilities or settlements could be substantial and could have a material impact on our consolidated financial position, results of operations and cash flows. Certain of these matters are described in more detail below.

On February 1, 2008, a class action lawsuit was filed in the United States District Court for the District of Massachusetts against SCC and other related entities styled *Cecil Barrett, et al. v. Option One Mortgage Corp., et al.* (Civil Action No. 08-10157-RWZ). Plaintiffs allege discriminatory practices relating to the origination of mortgage loans in violation of the Fair Housing Act and Equal Credit Opportunity Act, and seek declaratory and injunctive relief in addition to actual and punitive damages. The court dismissed H&R Block, Inc. from the lawsuit for lack of personal jurisdiction. In March 2011, the court issued an order certifying a class, which defendants sought to appeal. On August 24, 2011, the First Circuit Court of Appeals declined to hear the appeal, noting that the district court could reconsider its certification decision in light of a recent ruling by the United States Supreme Court in an unrelated matter. SCC subsequently filed a motion to decertify the class, which the court granted. Plaintiffs' petition for appeal is pending. A portion of our loss contingency accrual is related to this lawsuit for the amount of loss that we consider probable and estimable. We believe SCC has meritorious defenses to the claims in this case and it intends to defend the case vigorously, but there can be no assurances as to its outcome or its impact on our consolidated financial position, results of operations and cash flows.

On December 9, 2009, a putative class action lawsuit was filed in the United States District Court for the Central District of California against SCC and H&R Block, Inc. styled *Jeanne Drake, et al. v. Option One Mortgage Corp., et al.* (Case No. SACV09-1450 CJC). Plaintiffs allege breach of contract, promissory fraud, intentional interference with contractual relations, wrongful withholding of wages and unfair business practices in connection with not paying severance benefits to employees when their employment transitioned to American Home Mortgage Servicing, Inc. in connection with the sale of certain assets and operations of Option One. Plaintiffs seek to recover severance benefits of approximately \$8 million, interest and attorney's fees, in addition to penalties and punitive damages on certain claims. On September 2, 2011, the court granted summary judgment in favor of the defendants on all claims. Plaintiffs filed an appeal, which remains pending. We have not concluded that a loss related to this matter is probable, nor have we established a loss contingency related to this matter. We believe we have meritorious defenses to the claims in this case and intend to defend the case vigorously, but there can be no assurances as to its outcome or its impact on our consolidated financial position, results of operations and cash flows.

On October 15, 2010, the Federal Home Loan Bank (FHLB) of Chicago filed a lawsuit in the Circuit Court of Cook County, Illinois (Case No. 10CH45033) styled *Federal Home Loan Bank of Chicago v. Bank of America Funding Corporation, et al.* against multiple defendants, including various SCC-related entities, H&R Block, Inc. and other entities, arising out of FHLB's purchase of RMBSs. The plaintiff seeks rescission and damages under state securities law and for common law negligent misrepresentation

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in connection with its purchase of two securities originated and securitized by SCC. These two securities had a total initial principal amount of approximately \$50 million, of which approximately \$41 million remains outstanding. The plaintiff agreed to voluntarily dismiss H&R Block, Inc. from the suit. The remaining defendants, including SCC, filed motions to dismiss, which the court denied. Discovery is stayed pending the outcome of an appeal on the motions. We have not concluded that a loss related to this matter is probable, nor have we accrued a liability related to this matter. We believe SCC has meritorious defenses to the claims in this case and intends to defend the case vigorously, but there can be no assurances as to its outcome or its impact on our consolidated financial position, results of operations and cash flows.

On February 22, 2012, a lawsuit was filed by SCC against American Home Mortgage Servicing, Inc. (now known as Homeward Residential, Inc. (Homeward)) in the Supreme Court of the State of New York, County of New York, styled *Sand Canyon Corporation v. American Home Mortgage Servicing, Inc.* (Index No. 650504/2012), alleging breach of contract and breach of the implied covenant of good faith and fair dealing in connection with the Cooperation Agreement entered into with SCC in connection with SCC's sale of its mortgage loan servicing business to the defendant in 2008. SCC is seeking relief to, among other things, require the defendant to provide loan files only by the method prescribed in applicable agreements. The court denied the defendant's motion to dismiss. The defendant subsequently filed an appeal, which remains pending.

On May 31, 2012, a lawsuit was filed by Homeward in the Supreme Court of the State of New York, County of New York, against SCC styled *Homeward Residential, Inc. v. Sand Canyon Corporation* (Index No. 651885/2012). SCC removed the case to the United States District Court for the Southern District of New York on June 28, 2012 (Case No. 1:12-cv-05067-PGG). Plaintiff, in its capacity as the master servicer for Option One Mortgage Loan Trust 2006-2 and for the benefit of the trustee and the certificate holders of such trust, asserts claims for breach of contract, anticipatory breach, indemnity and declaratory judgment in connection with alleged losses incurred as a result of the breach of representations and warranties relating to loans sold to the trust and representation and warranties related to SCC. Plaintiff seeks specific performance of alleged repurchase obligations and/or damages to compensate the trust and its certificate holders for alleged actual and anticipated losses, as well as a repurchase of all loans due to alleged misrepresentations by SCC as to itself and representations given as to the loans' compliance with its underwriting standards and the value of underlying real estate. SCC is seeking leave to file a motion to dismiss. We have not concluded that a loss related to this matter is probable, nor have we accrued a liability related to this matter. We believe SCC has meritorious defenses to the claims in this case and intends to defend the case vigorously, but there can be no assurances as to its outcome or its impact on our consolidated financial position, results of operations and cash flows.

On September 28, 2012, a second lawsuit was filed by Homeward in the District Court for the Southern District of New York against SCC styled *Homeward Residential, Inc. v. Sand Canyon Corporation* (Case No. 12-cv-7319). Plaintiff, in its capacity as the master servicer for Option One Mortgage Loan Trust 2006-3 and for the benefit of the trustee and the certificate holders of such trust, asserts claims for breach of contract and indemnity in connection with losses allegedly incurred as a result of the breach of representations and warranties relating to 96 loans sold to the trust. Plaintiff seeks specific performance of alleged repurchase obligations and/or damages to compensate the trust and its certificate holders for alleged actual and anticipated losses. We have not concluded that a loss related to this matter is probable, nor have we accrued a liability related to this matter. We believe SCC has meritorious defenses to the claims in this case and intends to defend the case vigorously, but there can be no assurances as to its outcome or its impact on our consolidated financial position, results of operations and cash flows.

As of October 31, 2012, underwriters and depositors were involved in multiple lawsuits related to securitization transactions in which SCC participated. These lawsuits allege a variety of claims, including violations of federal and state securities law and common law fraud, based on alleged materially inaccurate or misleading disclosures. SCC has received notice of a claim for indemnification from underwriters or depositors relating to 12 of these lawsuits and involving approximately 38 securitization transactions collateralized in whole or in part by loans originated by SCC. Because SCC is not the servicer for any of these securitizations, is not party to these lawsuits (with the exception of the *Federal Home Loan Bank of Chicago v. Bank of America Funding Corporation* case discussed above), and does not have control

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of this litigation, SCC does not have precise information regarding the current aggregate unpaid principal balance of the mortgage loans that SCC sold in those transactions, nor, in many cases, the portion of any unpaid balance that is subject to litigation. Additional lawsuits against the underwriters or depositors may be filed in the future, and SCC may receive additional notices of claims for indemnification from underwriters or depositors with respect to existing or new lawsuits. We have not concluded that a loss related to any of these indemnification claims is probable, nor have we accrued a liability related to any of these claims. We believe SCC has meritorious defenses to these indemnification claims and intends to defend them vigorously, but there can be no assurance as to their outcome or their impact on our consolidated financial position, results of operations and cash flows.

American International Group, Inc. has threatened to assert claims of various types, including violations of state securities laws, common law torts and fraud, and breach of contract, in the approximate amount of \$650 million in connection with the sale and securitization of SCC-originated mortgage loans. We believe SCC has meritorious defenses to these threatened claims and will defend them vigorously if a lawsuit is filed asserting these claims, but, if such suit is filed, there can be no assurance as to its outcome or its impact on our consolidated financial position, results of operations and cash flows.

On April 3, 2012, the Nevada Attorney General issued a subpoena to SCC indicating it was conducting an investigation concerning "the alleged commission of a practice declared to be unlawful under the Nevada Deceptive Trade Practices Act." A majority of the documents requested in the subpoena involve SCC's lending to minority (African American and Latino) borrowers. No complaint has been filed to date. SCC plans to continue to cooperate with the Nevada Attorney General.

Employment-Related Claims and Litigation

We have been named in several wage and hour class action lawsuits throughout the country, including *Alice Williams v. H&R Block Enterprises LLC*, Case No. RG08366506 (Superior Court of California, County of Alameda, filed January 17, 2008) (alleging improper classification and failure to compensate for all hours worked and to provide meal periods to office managers in California); *Arabella Lemus, et al. v. H&R Block Enterprises LLC, et al.*, Case No. CGC-09-489251 (United States District Court, Northern District of California, filed June 9, 2009) (alleging failure to timely pay compensation to tax professionals in California); *Delana Ugas, et al. v. H&R Block Enterprises LLC, et al.*, Case No. BC417700 (United States District Court, Central District of California, filed July 13, 2009) (alleging failure to compensate tax professionals in California for all hours worked and to provide meal periods); and *Barbara Petroski, et al. v. H&R Block Eastern Enterprises, Inc., et al.*, Case No. 10-CV-00075 (United States District Court, Western District of Missouri, filed January 25, 2010) (alleging failure to compensate tax professionals nationwide for off-season training). The plaintiffs in these lawsuits seek actual damages, pre-judgment interest, statutory penalties and attorneys' fees.

A class was certified in the *Lemus* case in December 2010 (consisting of tax professionals who worked in company-owned offices in California from 2007 to 2010) and in the *Williams* case in March 2011 (consisting of office managers who worked in company-owned offices in California from 2004 to 2011). To avoid the cost and inherent risk associated with litigation, we reached agreements to settle these cases in January and February 2012, respectively, subject to approval by the courts in which the cases are pending. In *Lemus*, the settlement required a maximum payment of \$35 million, with the actual cost of the settlement dependent on the number of valid claims submitted by class members. The court granted final approval of the settlement on August 22, 2012, for an amount not materially different from our liability recorded at July 31, 2012. In *Williams*, the settlement provided for a maximum payment of \$7.5 million, with the actual cost of the settlement dependent on the number of valid claims submitted by class members. The court granted final approval of the settlement on November 8, 2012. The time for appeal has not yet expired. We previously recorded a liability for our estimate of the expected loss. If for any reason the *Williams* settlement does not become final, we will continue to defend the case vigorously, but there can be no assurances as to its outcome or its impact on our consolidated financial position, results of operations and cash flows.

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In the *Ugas* case, the court initially certified a class on the claim for failure to provide meal periods (consisting of tax professionals who worked in company-owned offices in California from 2006 to 2011), but subsequently decertified the class in a ruling dated July 9, 2012. The Ninth Circuit Court of Appeals declined to hear an appeal. The court also certified a class on the claim for failure to compensate tax professionals for all hours worked (consisting of tax professionals who worked in company-owned offices in one district in California from 2006-2009). That class remains pending. In the *Petroski* case, a conditional class was certified under the Fair Labor Standards Act in March 2011 (consisting of tax professionals nationwide who worked in company-owned offices and who were not compensated for certain training courses occurring on or after April 15, 2007). Two classes were also certified under state laws in California and New York (consisting of tax professionals who worked in company-owned offices in those states). We filed motions to decertify the classes, along with motions for summary judgment, which remain pending. A trial date has been set for June 3, 2013. We have not concluded that a loss related to the *Ugas* or *Petroski* matters is probable, nor have we accrued a loss contingency related to these matters. We believe we have meritorious defenses to the claims in these cases and intend to defend them vigorously, but there can be no assurances as to the outcome of these cases or their impact on our consolidated financial position, results of operations and cash flows.

RAL and RAC Litigation

We have been named in a putative class action styled *Sandra J. Basile, et al. v. H&R Block, Inc., et al.*, April Term 1992 Civil Action No. 3246 in the Court of Common Pleas, First Judicial District Court of Pennsylvania, Philadelphia County, instituted on April 23, 1993. The plaintiffs allege inadequate disclosures with respect to the refund anticipation loan (RAL) product and assert claims for violation of consumer protection statutes, negligent misrepresentation, breach of fiduciary duty, common law fraud, usury, and violation of the TILA. Plaintiffs seek unspecified actual and punitive damages, injunctive relief, attorneys' fees and costs. A Pennsylvania class was certified, but later decertified by the trial court in December 2003. The intermediate appellate court subsequently reversed the decertification decision. On September 7, 2012, the Pennsylvania Supreme Court reversed the decision of the intermediate appellate court, thereby allowing the trial court's decertification ruling to stand. We have not concluded that a loss related to this matter is probable, nor have we accrued a loss contingency related to this matter. We believe we have meritorious defenses to this case and intend to defend the case vigorously, but there can be no assurances as to the outcome of this case or its impact on our consolidated financial position, results of operations and cash flows.

A series of class action lawsuits were filed against us in various federal courts beginning on November 17, 2011 concerning the RAL and refund anticipation check (RAC) products. The plaintiffs generally allege we engaged in unfair, deceptive and/or fraudulent acts in violation of various state consumer protection laws by facilitating RALs that were accompanied by allegedly inaccurate TILA disclosures, and by offering RACs without any TILA disclosures. Certain plaintiffs also allege violation of disclosure requirements of various state statutes expressly governing RALs and provisions of those statutes prohibiting tax preparers from charging or retaining certain fees. Collectively, the plaintiffs seek to represent clients who purchased RAL or RAC products in up to forty-two states and the District of Columbia during timeframes ranging from 2007 to the present. The plaintiffs seek equitable relief, disgorgement of profits, compensatory and statutory damages, restitution, civil penalties, attorneys' fees and costs. These cases were consolidated by the Judicial Panel on Multidistrict Litigation into a single proceeding in the United States District Court for the Northern District of Illinois for coordinated pretrial proceedings, styled *IN RE: H&R Block Refund Anticipation Loan Litigation* (MDL No. 2373). We filed a motion to compel arbitration, which remains pending. We have not concluded that a loss related to this matter is probable, nor have we accrued a loss contingency related to this matter. We believe we have meritorious defenses to the claims in these cases and intend to defend the cases vigorously, but there can be no assurances as to the outcome of these cases or their impact on our consolidated financial position, results of operations and cash flows.

Compliance Fee Litigation

On April 16, 2012 and April 19, 2012, putative class action lawsuits were filed against us in Missouri state and federal courts, respectively, concerning a compliance fee charged to retail tax clients beginning in the 2011 tax season. These cases are styled *Manuel H. Lopez III v. H&R Block, Inc., et al.*, in the Circuit Court of Jackson

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County, Missouri (Case # 1216CV12290), and *Ronald Perras v. H&R Block, Inc., et al.*, in the United States District Court for the Western District of Missouri (Case No. 4:12-cv-00450-DGK). Taken together, the plaintiffs seek to represent all retail tax clients nationwide who were charged a compliance fee, and assert claims of violation of state consumer laws, money had and received, and unjust enrichment. We are seeking to compel arbitration on certain claims. We have not concluded that a loss related to these lawsuits is probable, nor have we accrued a liability related to either of these lawsuits. We believe we have meritorious defenses to the claims in these cases and intend to defend the cases vigorously, but there can be no assurances as to the outcome of these cases or their impact on our consolidated financial position, results of operations and cash flows.

Express IRA Litigation

On January 2, 2008, the Mississippi Attorney General in the Chancery Court of Hinds County, Mississippi First Judicial District (Case No. G 2008 6 S 2) filed a lawsuit regarding our former Express IRA product that is styled *Jim Hood, Attorney for the State of Mississippi v. H&R Block, Inc., H&R Block Financial Advisors, Inc., et al.* The complaint alleges fraudulent business practices, deceptive acts and practices, common law fraud and breach of fiduciary duty with respect to the sale of the product in Mississippi and seeks equitable relief, disgorgement of profits, damages and restitution, civil penalties and punitive damages. We believe we have meritorious defenses to the claims in this case and intend to defend the case vigorously, but there can be no assurances as to its outcome or its impact on our consolidated financial position, results of operations and cash flows.

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

Litigation and Claims Pertaining to the Discontinued Operations of RSM McGladrey

On April 17, 2009, a shareholder derivative complaint was filed by Brian Menezes, derivatively and on behalf of nominal defendant International Textile Group, Inc. against MCM in the Court of Common Pleas, Greenville County, South Carolina (C.A. No. 2009-CP-23-3346) styled *Brian P. Menezes, Derivatively on Behalf of Nominal Defendant, International Textile Group, Inc. (f/k/a Safety Components International, Inc.) v. McGladrey Capital Markets, LLC (f/k/a RSM EquiCo Capital Markets, LLC), et al.* Plaintiffs filed an amended complaint in October 2011 styled *In re International Textile Group Merger Litigation*, adding a putative class action claim. Plaintiffs allege claims of aiding and abetting, civil conspiracy, gross negligence and breach of fiduciary duty against MCM in connection with a fairness opinion MCM provided to the Special Committee of Safety Components International, Inc. (SCI) in 2006 regarding the merger between International Textile Group, Inc. and SCI. Plaintiffs seek actual and punitive damages, pre-judgment interest, attorneys' fees and costs. On February 8, 2012, the court dismissed plaintiffs' civil conspiracy claim against all defendants. A class was certified on the remaining claims on November 20, 2012. We have not concluded that a loss related to this matter is probable, nor have we established a loss contingency related to this matter. We believe we have meritorious defenses to the claims in this case and intend to defend the case vigorously, but there can be no assurances as to its outcome or its impact on our consolidated financial position, results of operations and cash flows.

Although we sold MCM effective January 31, 2012, we remain responsible for any liabilities relating to certain litigation matters through an indemnification agreement. A portion of our accrual is related to these indemnity obligations.

Other

We are from time to time a party to investigations, claims and lawsuits not discussed herein arising out of our business operations. These investigations, claims and lawsuits may include actions by state attorneys general, other state regulators, federal regulators, individual plaintiffs, and cases in which plaintiffs seek to represent a class of others similarly situated. We believe we have meritorious defenses to each of these investigations, claims and lawsuits, and we are defending or intend to defend them vigorously. The amounts claimed in these matters are substantial in some instances; however, the ultimate liability with respect to such matters is difficult to predict. In the event of an unfavorable outcome, the amounts we may be required to pay in the discharge of liabilities or settlements could have a material impact on our consolidated financial position, results of operations and cash flows.

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We are also a party to claims and lawsuits that we consider to be ordinary, routine litigation incidental to our business, including, but not limited to, claims and lawsuits concerning the preparation of customers' income tax returns, the fees charged customers for various products and services, relationships with franchisees, intellectual property disputes, employment matters and contract disputes (Other Claims). While we cannot provide assurance that we will ultimately prevail in each instance, we believe the amount, if any, we are required to pay in the discharge of liabilities or settlements in these Other Claims will not have a material impact on our consolidated financial position, results of operations and cash flows.

14. Discontinued Operations

Our discontinued operations consist of our former Business Services segment and SCC. We sold RSM and MCM in fiscal year 2012. SCC exited its mortgage business in fiscal year 2008.

The results of operations of our discontinued operations are as follows:

	(in 000s)			
		Three months ended October 31,		Six months ended October 31,
	2012	2011	2012	2011
Revenues	\$ —	\$ 199,042	\$ —	\$ 365,928
Pretax income (loss) from operations:				
RSM and related businesses	\$ (221)	\$ 10,583	\$ 307	\$ 17,714
Mortgage	(6,411)	(23,980)	(9,874)	(26,634)
	(6,632)	(13,397)	(9,567)	(8,920)
Income taxes (benefit)	(2,588)	(6,002)	(3,732)	(3,806)
Net income (loss) from operations	(4,044)	(7,395)	(5,835)	(5,114)
Pretax loss on sales of businesses	—	(9,552)	—	(109,249)
Income tax benefit	—	1,764	—	(39,709)
Net loss on sales of businesses	—	(11,316)	—	(69,540)
Net loss from discontinued operations	\$ (4,044)	\$ (18,711)	\$ (5,835)	\$ (74,654)

15. Regulatory Requirements – HRB Bank

The following table sets forth HRB Bank's regulatory capital requirements calculated in its Call Report, as filed with the Federal Financial Institutions Examination Council (FFIEC):

	(dollars in 000s)						
	Actual		Minimum Capital Requirement		Minimum to be Well Capitalized		
	Amount	Ratio	Amount	Ratio	Amount	Ratio	
As of September 30, 2012:							
Total risk-based capital ratio ⁽¹⁾	\$ 462,454	128.2%	\$ 28,868	8.0%	\$ 36,085	10.0%	
Tier 1 risk-based capital ratio ⁽²⁾	457,760	126.9%	N/A	N/A	21,651	6.0%	
Tier 1 capital ratio (leverage) ⁽³⁾	457,760	36.8%	49,696	4.0% ⁽⁵⁾	62,120	5.0%	
Tangible equity ratio ⁽⁴⁾	457,760	36.8%	18,636	1.5%	N/A	N/A	
As of March 31, 2012:							
Total risk-based capital ratio ⁽¹⁾	\$ 458,860	120.3%	\$ 30,513	8.0%	\$ 38,141	10.0%	
Tier 1 risk-based capital ratio ⁽²⁾	453,800	119.0%	N/A	N/A	22,885	6.0%	
Tier 1 capital ratio (leverage) ⁽³⁾	453,800	29.4%	185,252	12.0%	77,188	5.0%	
Tangible equity ratio ⁽⁴⁾	453,800	29.4%	23,157	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.

(5) Effective April 5, 2012, the minimum capital requirement was changed to 4% by the OCC, although HRB Bank plans to maintain a minimum of 12.0% leverage capital at the end of each calendar quarter.

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As of October 31, 2012, HRB Bank's leverage ratio was 35.7%.

16. Segment Information

Result of our continuing operations by reportable operating segment are as follows:

ts

	Three months ended		Six months ended	
	October 31,		October 31,	
	2012	2011	2012	2011
(in 000s)				
Revenues:				
Tax Services	\$ 129,819	\$ 121,018	\$ 220,072	\$ 212,443
Corporate	7,444	8,176	13,680	17,374
	<u>\$ 137,263</u>	<u>\$ 129,194</u>	<u>\$ 233,752</u>	<u>\$ 229,817</u>
Pretax income (loss):				
Tax Services	\$ (130,109)	\$ (173,966)	\$ (271,014)	\$ (343,449)
Corporate	(32,179)	(29,963)	(60,543)	(61,081)
Loss from continuing operations before tax benefit	<u>\$ (162,288)</u>	<u>\$ (203,929)</u>	<u>\$ (331,557)</u>	<u>\$ (404,530)</u>

17. New Accounting Standards

In September 2011, the FASB issued Accounting Standards Update 2011-08, "Intangibles – Goodwill and Other (Topic 350): Testing Goodwill for Impairment." Under the amendments in this guidance, an entity may consider qualitative factors before applying Step 1 of the goodwill impairment assessment, but may no longer be permitted to carry forward estimates of a reporting unit's fair value from a prior year when specific criteria are met. These amendments were effective for us as the beginning of our current fiscal year. We adopted this guidance as of May 1, 2012, and this new guidance did not have a material effect on our consolidated financial statements.

18. Condensed Consolidating Financial Statements

Block Financial LLC (Block Financial) is an indirect, wholly-owned subsidiary of the Company. Block Financial is the Issuer and the Company is the Guarantor of the Senior Notes issued on October 25, 2012, January 11, 2008 and October 26, 2004, our 2012 CLOC, and other indebtedness issued from time to time. These condensed consolidating financial statements have been prepared using the equity method of accounting. Earnings of subsidiaries are, therefore, reflected in the Company's investment in subsidiaries account. The elimination entries eliminate investments in subsidiaries, related stockholders' equity and other intercompany balances and transactions.

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<i>Condensed Consolidating Statements of Operations and Comprehensive Income (Loss)</i>						(in 000s)
Three months ended October 31, 2012	H&R Block, Inc. (Guarantor)	Block Financial (Issuer)	Other Subsidiaries	Eliminations	Consolidated H&R Block	
Total revenues	\$ —	\$ 17,986	\$ 119,299	\$ (22)	\$ 137,263	
Cost of revenues	—	33,871	178,162	(22)	212,011	
Selling, general and administrative	—	7,321	83,006	—	90,327	
Total expenses	—	41,192	261,168	(22)	302,338	
Operating loss	—	(23,206)	(141,869)	—	(165,075)	
Other income (expense), net	(162,288)	1,186	1,601	162,288	2,787	
Loss from continuing operations before tax benefit	(162,288)	(22,020)	(140,268)	162,288	(162,288)	
Income tax benefit	(61,089)	(6,703)	(54,386)	61,089	(61,089)	
Net loss from continuing operations	(101,199)	(15,317)	(85,882)	101,199	(101,199)	
Net loss from discontinued operations	(4,044)	(3,909)	(135)	4,044	(4,044)	
Net loss	(105,243)	(19,226)	(86,017)	105,243	(105,243)	
Other comprehensive income	1,335	119	1,216	(1,335)	1,335	
Comprehensive loss	\$ (103,908)	\$ (19,107)	\$ (84,801)	\$ 103,908	\$ (103,908)	

Three months ended October 31, 2011	H&R Block, Inc. (Guarantor)	Block Financial (Issuer)	Other Subsidiaries	Eliminations	Consolidated H&R Block	
Total revenues	\$ —	\$ 17,560	\$ 111,634	\$ —	\$ 129,194	
Cost of revenues	—	36,978	190,635	—	227,613	
Selling, general and administrative	—	6,444	101,568	—	108,012	
Total expenses	—	43,422	292,203	—	335,625	
Operating loss	—	(25,862)	(180,569)	—	(206,431)	
Other income (expense), net	(203,929)	3,065	(563)	203,929	2,502	
Loss from continuing operations before tax benefit	(203,929)	(22,797)	(181,132)	203,929	(203,929)	
Income tax benefit	(80,916)	(15,063)	(65,853)	80,916	(80,916)	
Net loss from continuing operations	(123,013)	(7,734)	(115,279)	123,013	(123,013)	
Net income (loss) from discontinued operations	(18,711)	(19,066)	355	18,711	(18,711)	
Net loss	(141,724)	(26,800)	(114,924)	141,724	(141,724)	
Other comprehensive income (loss)	(8,333)	843	(9,176)	8,333	(8,333)	
Comprehensive loss	\$ (150,057)	\$ (25,957)	\$ (124,100)	\$ 150,057	\$ (150,057)	

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Six months ended October 31, 2012	H&R Block, Inc. (Guarantor)	Block Financial (Issuer)	Other Subsidiaries	Eliminations	Consolidated H&R Block
Total revenues	\$ -	\$ 39,915	\$ 193,915	\$ (78)	\$ 233,752
Cost of revenues	-	68,813	336,700	(78)	405,435
Selling, general and administrative	-	14,961	150,844	-	165,805
Total expenses	-	83,774	487,544	(78)	571,240
Operating loss	-	(43,859)	(293,629)	-	(337,488)
Other income (expense), net	(331,557)	2,510	3,421	331,557	5,931
Loss from continuing operations before tax benefit	(331,557)	(41,349)	(290,208)	331,557	(331,557)
Income tax benefit	(124,708)	(14,958)	(109,750)	124,708	(124,708)
Net loss from continuing operations	(206,849)	(26,391)	(180,458)	206,849	(206,849)
Net income (loss) from discontinued operations	(5,835)	(6,020)	185	5,835	(5,835)
Net loss	(212,684)	(32,411)	(180,273)	212,684	(212,684)
Other comprehensive income (loss)	(3,460)	254	(3,714)	3,460	(3,460)
Comprehensive loss	\$ (216,144)	\$ (32,157)	\$ (183,987)	\$ 216,144	\$ (216,144)

Six months ended October 31, 2011	H&R Block, Inc. (Guarantor)	Block Financial (Issuer)	Other Subsidiaries	Eliminations	Consolidated H&R Block
Total revenues	\$ -	\$ 39,333	\$ 190,484	\$ -	\$ 229,817
Cost of revenues	-	74,640	365,557	-	440,197
Selling, general and administrative	-	14,339	186,326	-	200,665
Total expenses	-	88,979	551,883	-	640,862
Operating loss	-	(49,646)	(361,399)	-	(411,045)
Other income (expense), net	(404,530)	6,346	169	404,530	6,515
Loss from continuing operations before tax benefit	(404,530)	(43,300)	(361,230)	404,530	(404,530)
Income tax benefit	(162,362)	(16,913)	(145,449)	162,362	(162,362)
Net loss from continuing operations	(242,168)	(26,387)	(215,781)	242,168	(242,168)
Net loss from discontinued operations	(74,654)	(20,703)	(53,951)	74,654	(74,654)
Net loss	(316,822)	(47,090)	(269,732)	316,822	(316,822)
Other comprehensive income (loss)	(6,874)	1,765	(8,639)	6,874	(6,874)
Comprehensive loss	\$ (323,696)	\$ (45,325)	\$ (278,371)	\$ 323,696	\$ (323,696)

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<i>Condensed Consolidating Balance Sheets</i>						(in 000s)
As of October 31, 2012	H&R Block, Inc. (Guarantor)	Block Financial (Issuer)	Other Subsidiaries	Eliminations	Consolidated H&R Block	
Cash & cash equivalents	\$ -	\$ 491,772	\$ 769,995	\$ (866)	\$ 1,260,901	
Cash & cash equivalents – restricted	-	696	37,971	-	38,667	
Receivables, net	-	98,007	26,504	-	124,511	
Mortgage loans held for investment	-	370,850	-	-	370,850	
Intangible assets and goodwill, net	-	-	696,788	-	696,788	
Investments in subsidiaries	2,906,582	641	19	(2,906,582)	660	
Other assets	9,357	611,904	783,092	-	1,404,353	
Total assets	<u>\$ 2,915,939</u>	<u>\$ 1,573,870</u>	<u>\$ 2,314,369</u>	<u>\$ (2,907,448)</u>	<u>\$ 3,896,730</u>	
Customer deposits	\$ -	\$ 790,972	\$ -	\$ (866)	\$ 790,106	
Long-term debt	-	1,496,695	10,108	-	1,506,803	
Other liabilities	308	284,042	622,538	-	906,888	
Net intercompany advances	2,222,698	(689,702)	(1,532,996)	-	-	
Stockholders' equity	692,933	(308,137)	3,214,719	(2,906,582)	692,933	
Total liabilities and stockholders' equity	<u>\$ 2,915,939</u>	<u>\$ 1,573,870</u>	<u>\$ 2,314,369</u>	<u>\$ (2,907,448)</u>	<u>\$ 3,896,730</u>	

As of April 30, 2012	H&R Block, Inc. (Guarantor)	Block Financial (Issuer)	Other Subsidiaries	Eliminations	Consolidated H&R Block	
Cash & cash equivalents	\$ -	\$ 515,147	\$ 1,430,030	\$ (843)	\$ 1,944,334	
Cash & cash equivalents – restricted	-	8,814	39,286	-	48,100	
Receivables, net	-	90,755	103,103	-	193,858	
Mortgage loans held for investment, net	-	406,201	-	-	406,201	
Intangible assets and goodwill, net	-	-	692,017	-	692,017	
Investments in subsidiaries	2,525,473	-	715	(2,525,473)	715	
Other assets	8,887	623,032	732,423	-	1,364,342	
Total assets	<u>\$ 2,534,360</u>	<u>\$ 1,643,949</u>	<u>\$ 2,997,574</u>	<u>\$ (2,526,316)</u>	<u>\$ 4,649,567</u>	
Customer deposits	\$ -	\$ 828,392	\$ -	\$ (843)	\$ 827,549	
Long-term debt	-	999,325	41,224	-	1,040,549	
Other liabilities	22,690	(33,609)	1,466,496	-	1,455,577	
Net intercompany advances	1,185,778	62,734	(1,248,512)	-	-	
Stockholders' equity	1,325,892	(212,893)	2,738,366	(2,525,473)	1,325,892	
Total liabilities and stockholders' equity	<u>\$ 2,534,360</u>	<u>\$ 1,643,949</u>	<u>\$ 2,997,574</u>	<u>\$ (2,526,316)</u>	<u>\$ 4,649,567</u>	

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<i>Condensed Consolidating Statements of Cash Flows</i>					(in 000s)
Six months ended October 31, 2012	H&R Block, Inc. (Guarantor)	Block Financial (Issuer)	Other Subsidiaries	Eliminations	Consolidated H&R Block
Net cash provided by (used in) operating activities:	\$ (367)	\$ 2,026	\$ (568,695)	\$ –	\$ (567,036)
Cash flows from investing:					
Purchases of AFS securities	–	(67,474)	–	–	(67,474)
Maturities of AFS securities	–	53,064	34	–	53,098
Mortgage loans held for investment, net	–	23,608	–	–	23,608
Purchases of property & equipment, net	–	(912)	(59,808)	–	(60,720)
Payments made for acquisitions of businesses and intangibles, net	–	–	(10,442)	–	(10,442)
Proceeds from sales of businesses, net	–	–	943	–	943
Loans made to franchisees	–	(20,670)	–	–	(20,670)
Repayments from franchisees	–	8,303	–	–	8,303
Net intercompany advances	447,426	–	–	(447,426)	–
Other, net	–	5,023	4,252	–	9,275
Net cash provided by (used in) investing activities	447,426	942	(65,021)	(447,426)	(64,079)
Cash flows from financing:					
Repayments of long-term debt	–	–	(30,831)	–	(30,831)
Proceeds from long-term debt	–	497,185	–	–	497,185
Customer banking deposits, net	–	(37,890)	–	(23)	(37,913)
Dividends paid	(108,428)	–	–	–	(108,428)
Repurchase of common stock	(339,919)	–	–	–	(339,919)
Proceeds from exercise of stock options, net	1,288	–	–	–	1,288
Net intercompany advances	–	(475,147)	27,721	447,426	–
Other, net	–	(10,491)	(22,513)	–	(33,004)
Net cash used in financing activities	(447,059)	(26,343)	(25,623)	447,403	(51,622)
Effects of exchange rates on cash	–	–	(696)	–	(696)
Net decrease in cash	–	(23,375)	(660,035)	(23)	(683,433)
Cash – beginning of period	–	515,147	1,430,030	(843)	1,944,334
Cash – end of period	\$ –	\$ 491,772	\$ 769,995	\$ (866)	\$ 1,260,901

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Six months ended October 31, 2011	H&R Block, Inc. (Guarantor)	Block Financial (Issuer)	Other Subsidiaries	Eliminations	Consolidated H&R Block
Net cash provided by (used in) operating activities:	\$ 5,821	\$ (40,451)	\$ (547,998)	\$ –	\$ (582,628)
Cash flows from investing:					
Purchases of AFS securities	–	(155,159)	–	–	(155,159)
Maturities of AFS securities	–	22,199	1,050	–	23,249
Mortgage loans held for investment, net	–	22,978	–	–	22,978
Purchases of property & equipment, net	–	(94)	(40,416)	–	(40,510)
Payments made for acquisitions of businesses and intangibles, net	–	–	(8,164)	–	(8,164)
Proceeds from sales of businesses, net	–	–	37,036	–	37,036
Loans made to franchisees	–	(27,682)	–	–	(27,682)
Repayments from franchisees	–	7,447	–	–	7,447
Net intercompany advances	266,274	–	–	(266,274)	–
Other, net	–	6,101	7,584	–	13,685
Net cash provided by (used in) investing activities	266,274	(124,210)	(2,910)	(266,274)	(127,120)
Cash flows from financing:					
Repayments of commercial paper	–	(37,989)	–	–	(37,989)
Proceeds from commercial paper	–	77,979	–	–	77,979
Customer banking deposits, net	–	(129,055)	–	(230)	(129,285)
Dividends paid	(91,446)	–	–	–	(91,446)
Repurchase of common stock	(180,222)	–	–	–	(180,222)
Proceeds from exercise of stock options, net	(430)	–	–	–	(430)
Net intercompany advances	–	17,228	(283,502)	266,274	–
Other, net	3	952	(29,012)	–	(28,057)
Net cash used in financing activities	(272,095)	(70,885)	(312,514)	266,044	(389,450)
Effects of exchange rates on cash	–	–	(6,035)	–	(6,035)
Net decrease in cash	–	(235,546)	(869,457)	(230)	(1,105,233)
Cash – beginning of period	–	616,238	1,061,656	(50)	1,677,844
Cash – end of period	\$ –	\$ 380,692	\$ 192,199	\$ (280)	\$ 572,611

[Table of Contents](#)**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS****RECENT DEVELOPMENTS**

We are in the process of evaluating alternative means of ceasing to be a savings and loan holding company (SLHC), in which case we would no longer be subject to regulation by the Board of Governors of the Federal Reserve System (Federal Reserve) as an SLHC. In connection with that evaluation, we are exploring alternatives to continue delivering financial products and services to our customers. Our evaluation of alternatives is in its early stages and therefore we cannot predict the timing, the circumstances, or the likelihood of us ceasing to be regulated as an SLHC.

RESULTS OF OPERATIONS

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

TAX SERVICES

This segment primarily consists of our income tax preparation businesses – assisted, online and software, and includes our tax operations in the U.S. and its territories, Canada, and Australia. This segment also includes the activities of H&R Block Bank (HRB Bank) that primarily support the tax network.

Tax Services – Operating Results

	Three months ended October 31,		Six months ended October 31,	
	2012	2011	2012	2011
	(in 000s)			
Tax preparation fees	\$ 78,248	\$ 73,038	\$ 111,141	\$ 107,959
Fees from Peace of Mind guarantees	18,572	18,892	45,555	46,073
Fees from Emerald Card activities	8,281	7,660	20,337	18,901
Royalties	9,630	7,929	15,481	13,632
Other	15,088	13,499	27,558	25,878
Total revenues	129,819	121,018	220,072	212,443
Compensation and benefits:				
Field wages	45,290	52,951	77,698	89,798
Administrative and support wages	34,592	34,548	68,959	67,603
Benefits and other compensation	18,765	19,956	33,539	37,445
	98,647	107,455	180,196	194,846
Occupancy and equipment	82,267	86,478	162,118	169,815
Depreciation and amortization	23,393	30,248	43,864	51,698
Marketing and advertising	11,386	13,188	18,838	19,909
Other	44,989	56,809	86,594	118,712
Loss (gain) on sale of tax offices	(754)	806	(524)	912
Total expenses	259,928	294,984	491,086	555,892
Pretax loss	\$ (130,109)	\$ (173,966)	\$ (271,014)	\$ (343,449)

Three months ended October 31, 2012 compared to October 31, 2011

Tax Services' revenues increased \$8.8 million, or 7.3% from the prior year. Tax preparation fees increased \$5.2 million, or 7.1%, due to strong tax season results in Australia, where tax returns prepared increased over 8% in the current quarter.

Total expenses decreased \$35.1 million, or 11.9%, from the prior year. Compensation and benefits declined \$8.8 million, or 8.2%, primarily due to the reduction in force at the end of fiscal year 2012. Occupancy and equipment expenses decreased \$4.2 million, or 4.9%, primarily due to reductions in rent expense resulting from office closings. Depreciation and amortization declined \$6.9 million, or 22.7%, reflecting the write-off of certain intangible assets in the prior year in connection with the discontinuation of our Express Tax brand. Other expenses declined \$11.8 million, or 20.8%, primarily due to legal charges recorded in the prior year.

The pretax loss for the three months ended October 31, 2012 and 2011 was \$130.1 million and \$174.0 million, respectively.

[Table of Contents](#)**Six months ended October 31, 2012 compared to October 31, 2011**

Tax Services' revenues increased \$7.6 million, or 3.6%, from the prior year. Tax preparation fees increased \$3.2 million, or 2.9%, due primarily to strong tax season results in Australia, partially offset by additional revenue in the prior year resulting from an extension of the Canadian tax season.

Total expenses decreased \$64.8 million, or 11.7%, from the prior year. Compensation and benefits declined \$14.7 million, or 7.5%, primarily due to the reduction in force at the end of fiscal year 2012. Occupancy and equipment expenses decreased \$7.7 million, or 4.5%, primarily due to reductions in rent expense resulting from office closings. Depreciation and amortization declined \$7.8 million, or 15.2%, reflecting the write-off of certain intangible assets in the prior year in connection with the discontinuation of our Express Tax brand. Other expenses declined \$32.1 million, or 27.1%, primarily due to legal charges recorded in the prior year.

The pretax loss for the six months ended October 31, 2012 and 2011 was \$271.0 million and \$343.4 million, respectively.

CORPORATE, ELIMINATIONS AND INCOME TAXES ON CONTINUING OPERATIONS

Corporate operating losses include net interest margin and gains or losses relating to mortgage loans held for investment, real estate owned and residual interests in securitizations, along with interest expense on borrowings and other corporate expenses.

Corporate – Operating Results	(in 000s)			
	Three months ended October 31,		Six months ended October 31,	
	2012	2011	2012	2011
Interest income on mortgage loans held for investment	\$ 4,168	\$ 5,151	\$ 8,585	\$ 10,812
Other	3,276	3,025	5,095	6,562
Total revenues	7,444	8,176	13,680	17,374
Interest expense	21,903	20,975	42,571	41,993
Provision for loan losses	2,750	7,125	6,750	12,750
Other	14,970	10,039	24,902	23,712
Total expenses	39,623	38,139	74,223	78,455
Pretax loss	\$ (32,179)	\$ (29,963)	\$ (60,543)	\$ (61,081)

Three months ended October 31, 2012 compared to October 31, 2011

The pretax loss for the three months ended October 31, 2012 totaled \$32.2 million, or \$2.2 million worse than the prior year. Interest income on mortgage loans and provisions for loan losses declined \$1.0 million and \$4.4 million, respectively, as a result of the continued run-off of our mortgage loan portfolio. Other expenses increased \$4.9 million from the prior year primarily due to the timing of employee benefits costs and higher consulting expenses.

Six months ended October 31, 2012 compared to October 31, 2011

The pretax loss for the six months ended October 31, 2012 totaled \$60.5 million, an improvement of \$0.5 million over the prior year. Interest income on mortgage loans and provisions for loan losses declined \$2.2 million and \$6.0 million, respectively, as a result of the continued run-off of our mortgage loan portfolio.

Income Taxes on Continuing Operations

Our effective tax rate for continuing operations was 37.6% for the three and six months ended October 31, 2012, respectively, compared to 39.7% and 40.1% for the three and six months ended October 31, 2011, respectively. Due to losses in both periods, a discrete tax benefit in either period increases the tax rate while an item of discrete tax expense decreases the tax rate. During the six months ended October 31, 2012, a net discrete tax expense of \$4.2 million was recorded compared to a net discrete tax benefit of \$2.5 million in the same period of the prior year. This net difference in discrete tax expense primarily related to differences in income tax reserves recorded.

[Table of Contents](#)**DISCONTINUED OPERATIONS**

Our discontinued operations include our previously reported Business Services segment and our discontinued mortgage operations.

Discontinued Operations – Operating Results		(in 000s)			
	Three months ended October 31,		Six months ended October 31,		
	2012	2011	2012	2011	
Revenues	\$ –	\$ 199,042	\$ –	\$ 365,928	
Pretax income (loss) from operations:					
RSM and related businesses	\$ (221)	\$ 10,583	\$ 307	\$ 17,714	
Mortgage	(6,411)	(23,980)	(9,874)	(26,634)	
	(6,632)	(13,397)	(9,567)	(8,920)	
Income taxes (benefit)	(2,588)	(6,002)	(3,732)	(3,806)	
Net income (loss) from operations	(4,044)	(7,395)	(5,835)	(5,114)	
Pretax loss on sales of businesses	–	(9,552)	–	(109,249)	
Income tax benefit	–	1,764	–	(39,709)	
Net loss on sales of businesses	–	(11,316)	–	(69,540)	
Net loss from discontinued operations	\$ (4,044)	\$ (18,711)	\$ (5,835)	\$ (74,654)	

Three months ended October 31, 2012 compared to October 31, 2011

The net loss from our discontinued operations totaled \$4.0 million for the three months ended October 31, 2012. The net loss in the prior year totaled \$18.7 million, and included a \$20.0 million pretax provision for estimated losses on representation and warranty claims.

Six months ended October 31, 2012 compared to October 31, 2011

The net loss from our discontinued operations totaled \$5.8 million for the six months ended October 31, 2012. The net loss in the prior year totaled \$74.7 million, and included a \$99.7 million pretax goodwill impairment related to the sales of RSM McGladrey, Inc. (RSM) and McGladrey Capital Markets LLC (MCM).

Representation and Warranty Claims

SCC has accrued a liability as of October 31, 2012 for estimated contingent losses arising from representations and warranties on loans and securities it originated and sold, of \$129.3 million, which represents SCC's estimate of the probable loss that may occur. Loss payments on claims reviewed and deemed to be valid totaled \$0.8 million and \$3.3 million for the six months ended October 31, 2012 and 2011, respectively. These amounts were recorded as reductions of SCC's accrued representation and warranty liability.

See additional discussion in Item 1, note 12 to the consolidated financial statements.

FINANCIAL CONDITION

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

CAPITAL RESOURCES AND LIQUIDITY – Our sources of capital include cash from operations, cash from customer deposits, issuances of common stock and debt. We use capital primarily to fund working capital, pay dividends, repurchase shares of common stock and acquire businesses. Our operations are highly seasonal and therefore generally require the use of cash to fund operating losses during the period from May through mid-January.

Given the likely availability of a number of liquidity options discussed herein, including borrowing capacity under our unsecured committed line of credit (2012 CLOC), we believe that in the absence of any unexpected developments, our existing sources of capital at October 31, 2012 are sufficient to meet our operating needs. See discussions in Item 1, note 7 to the consolidated financial statements for details of our 2012 CLOC and in "Regulatory Environment" below for details of pending regulatory changes.

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OPERATING ACTIVITIES – Cash used in operations totaled \$567.0 million for the six months ended October 31, 2012, compared with \$582.6 million for the same period last year. This decrease is due to lower tax payments and operating losses in the current year, partially offset by the payment of previously accrued legal settlements.

Restricted Cash. We hold certain cash balances that are restricted as to use. Cash and cash equivalents – restricted totaled \$38.7 million at October 31, 2012, and primarily consisted of cash held by our captive insurance subsidiary that will be used to pay claims and cash held by HRB Bank required for regulatory compliance.

INVESTING ACTIVITIES– Cash used in investing activities totaled \$64.1 million for the current period, compared to \$127.1 million in the same period last year.

Available-for-Sale Securities. During the six months ended October 31, 2012, HRB Bank purchased \$67.5 million in mortgage-backed securities, compared to \$155.2 million in the prior year. Additionally, we received payments as a result of sales or maturing AFS securities of \$53.1 million during the six months ended October 31, 2012 compared to \$23.2 million in the prior year.

Mortgage Loans Held for Investment. We received net proceeds of \$23.6 million and \$23.0 million on our mortgage loans held for investment for the first six months of fiscal years 2013 and 2012, respectively.

Purchases of Property and Equipment. Total cash paid for property and equipment was \$60.7 million and \$40.5 million for the six months ended October 31, 2012 and 2011, respectively. This increase was primarily a result of upgrades to our tax offices.

Acquisitions of Businesses and Intangibles. Total cash paid for acquisitions was \$10.4 million and \$8.2 million during the six months ended October 31, 2012 and 2011, respectively.

Sales of Businesses. Proceeds from the sales of businesses totaled \$37.0 million for the six months ended October 31, 2011, as our former Business Services segment sold one of their ancillary businesses for \$20.3 million. We also sold 83 tax offices in the prior year. The majority of these sales were financed through affiliate loans.

Loans Made to Franchisees. Loans made to franchisees totaled \$20.7 million and \$27.7 million for the six months ended October 31, 2012 and 2011, respectively.

FINANCING ACTIVITIES– Cash used in financing activities totaled \$51.6 million for the six months ended October 31, 2012, compared to \$389.5 million in the same period last year, primarily due to the issuance of new long-term debt.

Proceeds from the Issuance of Long-Term Debt. On October 25, 2012, we issued \$500.0 million of 5.50% Senior Notes. The Senior Notes are due November 1, 2022, and are not redeemable by the bondholders prior to maturity.

On October 25, 2012, we provided notice to the trustee of our intention to redeem the entire principal amount of the \$600.0 million Senior Notes due in January 2013. The redemption settled on November 26, 2012 at a price of \$623.0 million. Proceeds of the \$500.0 million Senior Notes and other cash balances were used to repay the \$600.0 million Senior Notes.

Customer Banking Deposits. Customer banking deposits decreased \$37.9 million for the six months ended October 31, 2012 compared to a decrease of \$129.3 million in the prior year. In the current fiscal year, we sought to increase our level of customer deposits earlier in the fiscal year as a means of funding our Emerald Advance lines of credit for the upcoming tax season.

Dividends. We have consistently paid quarterly dividends. Dividends paid totaled \$108.4 million and \$91.4 million for the six months ended October 31, 2012 and 2011, respectively.

Repurchase and Retirement of Common Stock. We purchased and immediately retired 21.3 million shares of our common stock at a cost of \$315.0 million during the six months ended October 31, 2012. We also paid cash totaling \$22.5 million related to 1.5 million shares that had not yet settled and was accrued as of April 30, 2012. During the six months ended October 31, 2011, we purchased and immediately retired 13.0 million shares of our common stock at a cost of \$177.5 million.

In June 2012, our Board of Directors extended the authorization to purchase up to \$2.0 billion of our common stock through June 2015. There was \$857.5 million remaining under this authorization at October 31, 2012.

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HRB BANK – At October 31, 2012, HRB Bank had cash balances of \$490.6 million, compared to \$513.5 million at April 30, 2012. Distribution of that cash balance would be subject to regulatory approval and it is therefore not available for general corporate purposes.

Block Financial LLC (Block Financial) typically makes capital contributions to HRB Bank to help meet its capital requirements. Block Financial made capital contributions to HRB Bank of \$400.0 million during fiscal year 2012. No such contributions were made during the six months ended October 31, 2012.

ASSETS HELD BY FOREIGN SUBSIDIARIES – At October 31, 2012, cash and short-term investment balances of \$124.4 million were held by our foreign subsidiaries. These funds would have to be repatriated to be available to fund domestic operations, and income taxes would be accrued and paid on those amounts. While we do not currently have any plans in place to repatriate funds held by our foreign subsidiaries, we are evaluating the possibility of a related party purchase of intangibles by our Canadian and/or Australian subsidiaries. Such a purchase would reduce the cash held by these foreign subsidiaries.

BORROWINGS

The following chart provides the debt ratings for Block Financial as of October 31, 2012:

	Short-term	Long-term	Outlook
Moody's	P-2	Baa2	Negative
S&P	A-2	BBB	Negative

Other than the items discussed in Item 1, notes 7 and 12 to the consolidated financial statements, there have been no other material changes in our borrowings from those reported at April 30, 2012 in our Annual Report on Form 10-K.

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

Other than the items discussed in Item 1, note 7 to the consolidated financial statements, there have been no other material changes in our contractual obligations and commercial commitments from those reported at April 30, 2012 in our Annual Report on Form 10-K.

REGULATORY ENVIRONMENT

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) made extensive changes to the laws regulating banks, holding companies and financial services firms, and requires various federal agencies to adopt a broad range of new implementing rules and regulations and prepare numerous studies and reports for Congress. Among other changes, the Dodd-Frank Act imposes consolidated capital requirements on SLHCs. These requirements may have a significant long term effect on H&R Block, Inc., H&R Block Group, Inc. and Block Financial (our Holding Companies). The Dodd-Frank Act requires the Federal Reserve to promulgate minimum capital requirements for SLHCs, including leverage (Tier 1) and risk-based capital requirements that are no less stringent than those applicable to banks at the time the Dodd-Frank Act was adopted.

On June 7, 2012, the Federal Reserve issued a notice of proposed rulemaking on increased capital requirements, implementing changes required by the Dodd-Frank Act and aspects of the Basel III regulatory capital reforms, portions of which would apply to top-tier SLHCs including H&R Block, Inc. Later in June 2012, the Office of the Comptroller of the Currency (OCC) and the Federal Deposit Insurance Corporation (FDIC) joined the Federal Reserve in requesting comments on the notice of proposed rulemaking. The proposed rules include new risk-based capital and leverage ratios including (1) minimum common equity Tier 1 risk-based capital ratio of 4.5%; (2) minimum Tier 1 risk-based capital ratio of 6.0%; (3) minimum total risk-based capital ratio of 8.0%; and (4) minimum Tier 1 capital to adjusted average consolidated assets (leverage ratio) of 4.0%. The proposed rules also require the subtraction of goodwill and other intangibles from GAAP capital for the purposes of calculating Tier 1 capital. The proposed capital requirements for SLHCs, if implemented as proposed, would require us to retain additional capital, restrict our ability to (or the level at which we would be able to) pay dividends and repurchase shares of our common stock and/or alter our strategic plans. As originally proposed, these capital requirements would have been phased in incrementally beginning January 1, 2013, with full implementation to occur by January 1, 2015. However, the Federal Reserve announced on November 9, 2012 that the implementation would be postponed beyond January 1, 2013 to an unspecified date.

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The proposed rules also add a requirement for a minimum capital conservation buffer of 2.5% of risk-weighted assets, which would be incremental to each of the above ratios except for the leverage ratio. If implemented as proposed, the conservation buffer would be phased in, starting at 0.625% on January 1, 2016, increasing by that amount each year until fully implemented effective January 1, 2019. The capital conservation buffer would result in the following minimum ratios: (1) a common equity Tier 1 risk-based capital ratio of 7.0%; (2) a Tier 1 risk-based capital ratio of 8.5%; and (3) a total risk-based capital ratio of 10.5%. Failure to maintain a conservation buffer would result in restrictions on capital distributions, which includes dividends and share repurchase activity, and certain discretionary cash bonus payments to executive officers.

The deadline for comment on the proposed rules ended on October 22, 2012, and various banking associations, industry groups, and individual companies provided comments on the proposed rules to the regulators. We filed a comment letter asking the Federal Reserve to follow the Collins Amendment, which includes provisions that defer the effective date for new minimum capital requirements for SLHCs until July 21, 2015, and make the proposed capital requirements for SLHCs effective no earlier than such date. The regulators will now review the comments and publish final rules, which may vary substantially from the proposed rules. As such, the regulations ultimately applicable to our Holding Companies may be substantially different from the proposed regulations. If such regulations are implemented as proposed, banks and their holding companies, including our Holding Companies, will be subject to higher minimum capital requirements and will be required to hold a greater amount of equity than currently required. We will continue to monitor the rulemaking process for any modifications or clarifications that may be made prior to finalization. There is no assurance that the proposed rules will be adopted in their current form, what changes may be made prior to adoption, when the final rules will be effective, or how the final rules would ultimately affect our business. As discussed below in Part II, Item 1A, "Risk Factors," we are in the process of evaluating alternative means of ceasing to be an SLHC, in which case we would no longer be subject to regulation by the Federal Reserve as an SLHC.

There have been no other material changes in our regulatory environment from those reported at April 30, 2012 in our Annual Report on Form 10-K.

FORWARD-LOOKING INFORMATION

This report and other documents filed with the SEC may contain forward-looking statements within the meaning of the securities laws. In addition, our senior management may make forward-looking statements orally to analysts, investors, the media and others. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. They often include words or variation of words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates," "projects," "forecasts," "targets," "would," "will," "should," "could" or "may" or other similar expressions. Forward-looking statements provide management's current expectations or predictions of future conditions, events or results. All statements that address operating performance, events or developments that we expect or anticipate will occur in the future are forward-looking statements. They may include estimates of revenues, income, earnings per share, capital expenditures, dividends, liquidity, capital structure or other financial items, descriptions of management's plans or objectives for future operations, products or services, or descriptions of assumptions underlying any of the above. All forward-looking statements speak only as of the date they are made and reflect the Company's good faith beliefs, assumptions and expectations, but they are not guarantees of future performance or events. Furthermore, the Company disclaims any obligation to publicly update or revise any forward-looking statement to reflect changes in underlying assumptions, factors, or expectations, new information, data or methods, future events or other changes, except as required by law. By their nature, forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those suggested by the forward-looking statements. Factors that might cause such differences include, but are not limited to, a variety of economic, competitive and regulatory factors, many of which are beyond the Company's control and which are described in our Annual Report on Form 10-K for the fiscal year ended April 30, 2012 in the section entitled "Risk Factors," as well as additional factors we may describe from time to time in other filings with the Securities and Exchange Commission. It is not possible to predict or identify all such factors and, consequently, no such list should be considered to be a complete set of all potential risks or uncertainties.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in our market risks from those reported at April 30, 2012 in our Annual Report on Form 10-K.

ITEM 4. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

As of the end of the period covered by this Form 10-Q, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)). 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 and procedures were effective as of the end of the period covered by this Quarterly Report on Form 10-Q.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

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

PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

For a description of our material pending legal proceedings, see discussion in Part I, Item 1, note 13 to the consolidated financial statements.

ITEM 1 RISK FACTORS

A.

Proposed Federal Reserve capital requirements may restrict our capital allocation strategies and we are therefore exploring alternatives to cease being a SLHC. If we were to cease being a SLHC, the means we use to deliver financial products and services to our customers and the profitability of those offerings could be adversely impacted.

Our subsidiary, HRB Bank, is a federal savings bank chartered under the Home Owner's Loan Act of 1933, as amended. Our Holding Companies are SLHCs because they control HRB Bank.

The Dodd-Frank Act requires the Federal Reserve to promulgate minimum capital requirements for SLHCs, including leverage and risk-based capital requirements that are no less stringent than those applicable to insured depository institutions at the time the Dodd-Frank Act was enacted. On June 7, 2012, the Federal Reserve issued a notice of proposed rulemaking on regulatory capital requirements, implementing changes required by the Dodd-Frank Act and aspects of the Basel III regulatory capital reforms, portions of which would apply to our Holding Companies ("Proposed Capital Rules"). The OCC, which regulates HRB Bank, and the FDIC joined the Federal Reserve in requesting comments on the Proposed Capital Rules, and on August 8, 2012, the comment period was extended until October 22, 2012. We provided formal comments on the Proposed Capital Rules. It is currently unclear what the regulatory capital requirements for SLHCs will be and when such capital requirements will become effective. The Federal Reserve announced on November 9, 2012 that the implementation would be postponed beyond January 1, 2013 to an unspecified date.

In connection with its first examination of the Company, the Federal Reserve Bank of Kansas City, the Company's primary banking regulator, has requested that the Company include in its policies the guidance set forth in Supervisory Letter SR 09-4 (March 27, 2009) regarding the payment of dividends, stock redemptions and stock repurchases by bank holding companies. In Supervisory Letter SR 11-11 (July 21, 2011), the Federal Reserve described the supervisory approach it would use to examine SLHCs and directed examiners to apply the principles of SR 09-4 to SLHCs.

This guidance would require our Holding Companies to retain significant additional capital, even though HRB Bank has regulatory capital substantially above the "well capitalized" level. At this time, we do not foresee

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regulatory flexibility in this regard in light of the Federal Reserve's views of the statutory requirements imposed under the Dodd-Frank Act. Accordingly, while our current belief is that dividends at current levels would continue to be permitted as long as HRB Bank remains well capitalized, the Federal Reserve will closely supervise and likely restrict other capital allocation decisions, including stock repurchases, acquisitions, and other forms of strategic investment. We believe that such regulatory constraints are inconsistent with our strategic plans, operational needs, and growth objectives.

We are in the process of evaluating alternative means of ceasing to be an SLHC, in which case we would no longer be subject to regulation by the Federal Reserve as an SLHC. In connection with that evaluation, we are exploring alternatives to continue delivering financial products and services to our customers.

Our evaluation of alternatives is in its early stages and therefore we cannot predict the timing, the circumstances, or the likelihood of us ceasing to be regulated as an SLHC, or whether cessation of SLHC status would have a material adverse effect on our business and our consolidated financial position, results of operations and cash flows.

There have been no other material changes in our risk factors from those reported at April 30, 2012 in our Annual Report on Form 10-K.

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

A summary of our purchases of H&R Block common stock during the second quarter of fiscal year 2013 is as follows:

				(in 000s, except per share amounts)	
	Total Number of Shares Purchased ⁽¹⁾	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ⁽²⁾		Maximum \$ Value of Shares that May Be Purchased Under the Plans or Programs
August 1 – August 31	4	\$ 15.70	–	\$	857,504
September 1 – September 30	3	\$ 16.78	–	\$	857,504
October 1 – October 31	41	\$ 17.64	–	\$	857,504

⁽¹⁾ Total shares of 48 thousand were purchased in connection with the funding of employee income tax withholding obligations arising upon the exercise of stock options or the lapse of restrictions on nonvested shares.

⁽²⁾ In June 2012, our Board of Directors extended the authorization to purchase up to \$2.0 billion of our common stock through June 2015.

ITEM 6. EXHIBITS

3.1	Amended and Restated Bylaws of H&R Block, Inc., as amended through September 13, 2012, filed as Exhibit 3.1 to the Company's current report on Form 8-K filed September 14, 2012, file number 1-6089, is incorporated herein by reference.
4.1	Officer's Certificate, dated October 25, 2012, in respect of 5.50% Notes due 2022 of Block Financial LLC, filed as Exhibit 4.1 to the Company's current report on Form 8-K filed October 25, 2012, file number 1-6089, is incorporated herein by reference.
4.2	Form of 5.50% Note due 2022 of Block Financial LLC, filed as Exhibit 4.2 to the Company's current report on Form 8-K filed October 25, 2012, file number 1-6089, is incorporated herein by reference.
10.1*	H&R Block Deferred Compensation Plan for Executives, as amended and restated on November 9, 2012.
31.1	Certification by Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification by Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification by Chief Executive Officer furnished pursuant to 18 U.S.C. 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification by Chief Financial Officer furnished pursuant to 18 U.S.C. 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Extension Calculation Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase
101.REF	XBRL Taxonomy Extension Reference Linkbase

* Indicates management contracts, compensatory plans or arrangements.

SIGNATURES

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

H&R BLOCK, INC.



William C. Cobb
President and Chief Executive Officer
December 6, 2012



Gregory J. Macfarlane
Chief Financial Officer
December 6, 2012



Jeffrey T. Brown
Chief Accounting and Risk Officer
December 6, 2012

H&R BLOCK, INC.
DEFERRED COMPENSATION PLAN FOR EXECUTIVES
(Amended and Restated Effective November 9, 2012)

Purpose

H&R Block, Inc. (the "Company") amended and restated the H&R Block, Inc. Deferred Compensation Plan for Executives effective as of July 1, 2002, and as of July 23, 2010. This amendment and restatement is effective November 9, 2012, except as otherwise stated herein.

The purpose of this Plan is to provide specified benefits to a select group of management or highly compensated employees who contribute materially to the continued growth, development and future business success of the Company and its Affiliates, if any, that sponsor this Plan. This Plan shall be unfunded for tax purposes and for purposes of Title I of ERISA.

Notwithstanding any provision in the Plan to the contrary, pursuant to IRS Notice 2007-86, all amounts accrued under the Plan for a Participant as of December 31, 2008 will be paid in a lump sum on April 11, 2009, unless the Participant elects to defer Salary and Bonus earned in 2009 in accordance with Article 3. If a Participant elects to defer for 2009, the Participant may elect one time and form of payment for all amounts attributable to pre-2009 deferrals, as well as a time and form of payment for deferrals for 2009 and subsequent years. For Participants in pay status on or before December 31, 2008 (i) payments of pre-2004 deferrals shall be paid according to the Plan as grandfathered under Code §409A, and (ii) payments of deferrals made after 2004 shall be governed by the Participant's payment elections and the terms of the Amended and Restated Plan. Sections 1.16, 1.26, 7.3, 7.4, 9.2, 14.6, and 16.17 are effective December 31, 2008.

The H&R Block, Inc. Deferred Compensation Trust Agreement, dated December 13, 1988, was revoked, effective December 31, 2008, in accordance with §2.03. The H&R Block, Inc. Deferred Compensation Trust Agreement was reinstated, effective December 31, 2008 except that §§2.02-3 and 2.02-4 were deleted in the entirety.

ARTICLE 1

Definitions

For the purposes of this Plan, unless otherwise clearly apparent from the context, the following phrases or terms shall have the following indicated meanings:

- 1.1 "Account Balance" means, with respect to a Participant, a credit on the records of the Employer equal to the sum of the Participant's Deferral Account balance, the Company Matching Account balance, and the Discretionary Company Contributions Account balance. The Account Balance, and each other specified account balance, shall be a bookkeeping entry only and shall be utilized solely as a device for the measurement and determination of the amounts to be paid to a Participant, or his or her designated Beneficiary, pursuant to this Plan.
- 1.2 "Affiliate" or "Affiliates" means a group of entities, including the Company, which constitutes a controlled group of corporations (as defined in section 414(b) of the Code), a group of trades or businesses (whether or not incorporated) under common control (as defined in section 414(c) of the Code).

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- 1.3 "Annual Company Matching Contributions" means for any one Plan Year, the amount determined in accordance with Section 4.1. Notwithstanding anything in this Plan to the contrary, no Annual Company Matching Contributions shall be made with respect to any Compensation paid or Annual Deferrals made after December 31, 2012.
 - 1.4 "Annual Contributions" means the Participant's Annual Deferral Amount plus Annual Company Matching Contributions for any one Plan Year. Notwithstanding anything in this Plan to the contrary, no Annual Company Matching Contributions shall be made with respect to any Compensation paid or Annual Deferrals made after December 31, 2012.
 - 1.5 "Annual Deferral Amount" means that portion of a Participant's Salary and Bonus that a Participant defers in accordance with Section 3.1(a) for any one Plan Year. In the event of a Participant's Unforeseeable Financial Emergency (if deferrals are revoked in accordance with Article 6), Disability (if deferrals cease in accordance with Section 8.1), death, or a Termination of Employment prior to the end of a Plan Year, such year's Annual Deferral Amount shall be the actual amount withheld prior to such event.
 - 1.6 "Beneficiary" means one or more persons, trusts, estates or other entities, designated by a Participant in accordance with Section 10.2, or in the absence of such designation, the persons specified in Section 10.3, that are entitled to receive benefits under this Plan upon the death of a Participant.
 - 1.7 "Beneficiary Designation Form" means the form (which may be digital and require electronic transmission) established from time to time by the Committee by which a Participant designates one or more Beneficiaries in accordance with the Committee's procedures.
 - 1.8 "Board" means the Board of Directors of the Company, as constituted at the relevant time.
 - 1.9 "Bonus" means performance-based compensation paid under the Employer's short-term incentive plan (or other annual incentive program) which is contingent on the satisfaction of pre-established organizational or individual performance criteria over the Company's 12-consecutive month Fiscal Year; but excluding any amounts paid under an incentive program that will be paid regardless of performance or based upon a level of performance that is substantially certain to be met at the time the criteria is established.
 - 1.10 "Claimant" shall have the meaning set forth in Section 14.1.
 - 1.11 "Code" means the Internal Revenue Code of 1986, as it may be amended from time to time. References to a Code section shall be deemed to be to that section or any successor to that section.

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- 1.12 "Committee" means the Compensation Committee of the Board.
- 1.13 "Company" means H&R Block, Inc., a Missouri corporation, and any successor to all or substantially all of its assets or business.
- 1.14 "Company Matching Account" means (i) the sum of all of a Participant's Annual Company Matching Contributions, plus (ii) amounts credited in accordance with all the applicable crediting and debiting provisions of this Plan that relate to the Participant's Company Matching Account, less (iii) all distributions made to the Participant or his or her Beneficiary pursuant to this Plan that relate to the Participant's Company Matching Account.
- 1.15 "Deferral Account" means (i) the sum of all of a Participant's Annual Deferral Amounts, plus (ii) amounts credited in accordance with all the applicable crediting and debiting provisions of this Plan that relate to the Participant's Deferral Account, less (iii) all distributions made to the Participant or his or her Beneficiary pursuant to this Plan that relate to his or her Deferral Account.
- 1.16 "Disability" or "Disabled" means, determined in accordance with the following determination periods, (1) in the case of a Participant who has coverage under the Employer's group long-term disability program, the Participant is, by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, receiving income replacement benefits for a period of at least three months under such program; or (2) in the case of a Participant who does not have coverage under the Employer's group long-term disability program, the Participant is unable to engage in any substantial gainful activity for a period of at least nine months by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months. For this purpose, a Participant shall be deemed to have incurred a Disability on the last day of the applicable determination period above.
- 1.17 "Discretionary Company Contributions" means the amount credited to an Employee in accordance with Section 4.2.
- 1.18 "Discretionary Company Contributions Account" means the (i) sum of all of a Participant's Discretionary Company Contributions, plus (ii) amounts credited in accordance with all the applicable crediting and debiting provisions of the Plan that relate to the Participant's Discretionary contributions Account, less (iii) all distributions made to the Participant or his or her Beneficiary pursuant to the Plan that relate to the Participant's Discretionary Company Contributions Account.
- 1.19 "Disability Benefit" means the benefit set forth in Article 8.
- 1.20 "Election Form" means the form (which form or forms may be in a digital format and require electronic transmission) established from time to time by the Committee by which a Participant makes elections under the Plan in accordance with the Committee's procedures.

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- 1.21 "Eligibility Committee" means the Chief Executive Officer of the Company, the Chief Financial Officer of the Company, and the senior officer of the Company responsible for human resources.
- 1.22 "Employee" means a person who is an employee of any Employer.
- 1.23 "Employer" means the Company and/or any of its Affiliates (now in existence or hereafter formed or acquired) that have been selected by the Board to participate in the Plan and have agreed to participate in the Plan.
- 1.24 "ERISA" means the Employee Retirement Income Security Act of 1974, as it may be amended from time to time. References to an ERISA section shall be deemed to be to that section or any successor to that section.
- 1.25 "In-Service Distribution" means a date-based distribution as set forth in Section 7.1 providing for distribution no earlier than the third Plan Year after the Plan Year for which the Annual Contributions are made.
- 1.26 "Installment Method" means monthly installment payments over a number of years selected by the Participant in accordance with this Plan. Each installment payment shall be calculated by multiplying the Account Balance of the Participant by a fraction, the numerator of which is one and the denominator of which is the remaining number of payments due the Participant. For purposes of this calculation, the Account Balance of the Participant (or the appropriate portion thereof) shall be calculated as of the close of business on or around the date of the Participant's payment.
- 1.27 "Measurement Fund" means one or more investment funds which may, but need not, include the investment funds provided under the H&R Block Retirement Savings Plan (including Company stock) available as a measuring standard for crediting earnings and losses to a Participant's Account Balance. Notwithstanding any other provision in this Plan that may be interpreted to the contrary, the Measurement Funds are to be used for measurement purposes only, and a Participant's election of any Measurement Fund, the allocation to his or her Account Balance thereto, the calculation of additional amounts and the crediting or debiting of such amounts to a Participant's Account Balance shall not be considered or construed in any manner as an actual investment of his or her Account Balance in any Measurement Fund.
- 1.28 "Open Enrollment" means, with respect to the deferral of Salary for a Plan Year, such period as established by the Committee ending before the beginning of such Plan Year. With respect to the deferral of a Bonus, such period as established by the Committee ending before the date that is no later than 6 months prior to the expiration of the performance period with respect to such Bonus.
- 1.29 "Participant" means any Employee (i) who is selected to participate in the Plan, (ii) who elects to participate in the Plan, (iii) who executes an Election Form in a form acceptable to the Committee, (iv) who commences participation in the Plan, and (v) whose participation has not terminated. A spouse or former spouse of a Participant shall not be treated as a Participant in the Plan or have an account balance under the

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- Plan, even if he or she has an interest in the Participant's benefits under the Plan as a result of applicable law or property settlements resulting from legal separation or divorce.
- 1.30 "Payment Date" means the date during a month on which payments under this Plan are made, as selected by the Committee from time to time.
- 1.31 "Plan" means the H&R Block, Inc. Deferred Compensation Plan for Executives, which shall be evidenced by this instrument as it may be amended from time to time and Participant's Election Forms.
- 1.32 "Plan Year" means a period beginning on January 1 of each calendar year and continuing through December 31 of such calendar year.
- 1.33 "Qualified Plan" means the H&R Block Retirement Savings Plan or any successor plan that is intended to satisfy the requirements of section 401 of the Code.
- 1.34 "Salary" means the total salary and wages, including fee based earnings and commissions paid by all Affiliates to a Participant relating to services performed during any Plan Year, excluding any other remuneration paid by Affiliates such as Bonuses, other bonuses, overtime, incentive pay, stock options, distributions of compensation previously deferred, restricted stock, severance pay, allowances for expenses (such as relocation, travel, and automobile allowances), non-monetary awards and fringe benefits (cash or noncash). Salary shall be calculated before reduction for compensation voluntarily deferred or contributed by the Participant pursuant to all qualified or non-qualified plans of any Affiliate and shall be calculated to include amounts not otherwise included in the Participant's gross income under Code Sections 125, or 402(e)(3) pursuant to plans established by any Affiliate; provided, however, that all such amounts will be included in compensation only to the extent that had there been no such plan, the amount would have been payable in cash to the Participant.
- 1.35 "Survivor Benefit" means the benefit set forth in Article 9.
- 1.36 "Termination Benefit" means the benefit set forth in Section 7.3.
- 1.37 "Termination of Employment" means a separation from service within the meaning of Code §409A. A Participant who is an employee will generally have a Termination of Employment if the Participant voluntarily or involuntarily terminates employment with the Employer. A termination of employment occurs if the facts and circumstances indicate that the Participant and the Employer reasonably anticipate that no further services will be performed after a certain date or that the level of bona fide services the Participant will perform after such date (whether as an employee, director or other independent contractor) for the Employer will decrease to no more than 20 percent of the average level of bona fide services performed (whether as an employee, director or other independent contractor) over the immediately preceding 36-month period (or full period of services if the Participant has been providing services for less than 36 months). Notwithstanding the foregoing, the employment relationship is

treated as continuing while the Participant is on military leave, sick leave or other bona fide leave of absence if the period does not exceed 6 months, or if longer, so long as the Participant retains the right to reemployment with an Employer under an applicable statute or contract. When a leave of absence is due to any medically determinable physical or mental impairment that can be expected to result in death or to last for a period of at least 6 months and such impairment causes the Participant to be unable to perform duties of his or her position or any substantially similar position, a 29-month maximum period of absence shall be substituted for the 6-month maximum period described in the preceding sentence.

- 1.38 "Trust" means one or more trusts established with respect to the Plan between the Company and the trustee named therein, as amended from time to time.
- 1.39 "Unforeseeable Financial Emergency" means a severe financial hardship to the Participant resulting from (i) an illness or accident of the Participant, a Beneficiary or a dependent (as defined in Code §152, without regard to §152(b)(1), (b)(2), and (d)(1)(B)) of the Participant, (ii) a loss of the Participant's property due to casualty, or (iii) such other extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant, all as determined in the sole discretion of the Committee consistent with the requirements of Code Section 409A.

ARTICLE 2

Selection, Enrollment, Eligibility

- 2.1 **Selection by Committee.** Participation in the Plan shall be limited to a select group of management or highly compensated Employees, as determined by the Committee or if the Committee so directs, the Eligibility Committee. The Eligibility Committee will report to the Compensation Committee not less frequently than annually the individuals it selects for participation.
- 2.2 **Enrollment Requirements.** As a condition to a selected Employee's participation, the Committee must receive, in accordance with the Committee's procedures, an Election Form during Open Enrollment or within thirty (30) days after he or she is first selected for participation in the Plan. In addition, the Committee may establish from time to time such other enrollment requirements as it determines in its sole discretion are necessary. Notwithstanding the foregoing, an Employee shall be deemed to satisfy the enrollment requirements with respect to Discretionary Company Contributions by approval of a Discretionary Company Contribution for the Participant in accordance with Section 4.2.
- 2.3 **Eligibility; Commencement of Participation.** Provided an Employee selected to participate in the Plan has met all enrollment requirements set forth in this Plan and required by the Committee, the Employee shall commence participation in the Plan on the first day of the month following the month in which the Employee executes all enrollment requirements or such later date as the Committee shall determine in its sole discretion with respect to compensation paid for services performed after the election. If an Employee fails to meet all such requirements within the period required, in

accordance with Section 2.2, that Employee shall not be eligible to participate in the Plan until the first day of the Plan Year following the delivery to and acceptance by the Committee of the required documents; provided, however, that such Employee must continue to be eligible to participate in the Plan as determined by the Committee in its sole discretion.

- 2.4 **Termination of Participation.** Subject to Section 2.6, once an Employee has become a Participant in the Plan, his or her participation shall continue until the earlier of (i) payment in full of all benefits to which the Participant or his or her Beneficiary is entitled under the Plan or (ii) the occurrence of an event specified in Section 2.5 which results in loss of benefits. Except as otherwise specified in the Plan, the Company may not terminate an individual's participation in the Plan.
- 2.5 **Missing Persons.** If the Company is unable to locate a Participant or his or her Beneficiary for purposes of making a distribution, the amount of the Participant's benefits under this Plan that would otherwise be considered as non-forfeitable, shall be forfeited effective four (4) years after (i) the last date a payment of said benefit was made, if at least one such payment was made, or (ii) the first date a payment of said benefit was to be made pursuant to the terms of the Plan, if no payments had been made. If such person is located after the date of such forfeiture, the benefits for such Participant or Beneficiary shall not be reinstated hereunder.
- 2.6 **Changes in Employment Status.** If a Participant has a change in his or her employment responsibilities, title, compensation, and/or performance, such that the Participant would not qualify for initial participation in the Plan, as determined by the Committee in its sole discretion, (i) the Participant shall continue to defer his or her Annual Deferral Amount in accordance with the Participant's election for the Plan Year during which the change in employment responsibilities, title, compensation, and/or performance occurs, (ii) the Participant shall not be eligible to elect an Annual Deferral Amount or to be credited with a Discretionary Company Contribution in Plan Years following the Plan Year during which the change in employment responsibilities, title, compensation, and/or performance occurs unless and until the Participant again is selected to elect an Annual Deferral Amount, as determined by the Committee in its sole discretion, and (iii) the Participant shall otherwise continue to participate in the Plan.
- 2.7 **Participation upon Reemployment.** If a Participant terminates employment with all Affiliates and later becomes reemployed by an Affiliate, such reemployment shall not suspend or delay benefit payments such Participant is receiving or is eligible to receive under the Plan as a result of the Termination of Employment. Upon reemployment, the Participant shall not be eligible to make deferrals unless and until the Participant again qualifies for initial participation as determined by the Committee.

ARTICLE 3
Open Enrollment/ Annual Elections

3.1 **Elections.** A Participant shall complete an election for Salary and Bonus by completing and delivering an Election Form to the Committee during Open Enrollment for the Plan Year in the case of Salary and for the applicable performance period in the case of Bonus. The Participant shall be entitled to elect the following:

- (a) **Annual Deferral Amount.** For each Plan Year, a Participant may elect, subject to withholding described in Section 5.2(a), to defer Salary and Bonus according to the following schedule:

Deferral	Minimum Percentage	Maximum Percentage
Salary	0%	100%
Bonus	0%	100%

Timely receipt of an Election Form by the Committee is a condition to deferral of either Salary or Bonus. If no Election Form is timely received by the Committee, the applicable deferral percentage shall be zero.

- (b) **Measurement Funds.** A Participant may elect one or more Measurement Fund(s) to be used to determine the amounts to be credited or debited to his or her Account Balance. If a Participant does not elect any Measurement Funds, the Participant's Annual Deferral Amount shall be allocated according to the Participant's most recent election. If a Participant has not previously elected any Measurement Fund, amounts will be credited or debited according to a default Measurement Fund as determined by the Committee, in its sole discretion.
- (c) **Time and Form of Payment.** During the Open Enrollment for a Plan Year, a Participant may make a payment election designating the time of commencement of payment of the portion of the Participant's Account Balance attributable to his Annual Deferral Amount and Annual Company Matching Contributions for the Plan Year, and the form of payment (either lump sum or installments) for such portion according to the permissible distribution events provided under the Plan which may include any distribution or payment options provided for under Article 7. Effective with respect to Open Enrollment for Annual Deferrals on or after January 1, 2013, no election shall be made as to the time of payment for Annual Company Matching Contributions. The time and form of payment of any Discretionary Company Contribution for an Employee for a Plan Year shall be established by the Committee at the time any such Discretionary Company Contribution is authorized.

3.2 **Effect of Elections/Changes to Elections.**

- (a) **Irrevocable Deferral Elections.** Once a Plan Year has commenced, a Participant may not elect to change his or her deferral election that is in effect for that Plan Year, except if and to the extent permitted by the Committee and made in accordance with the provisions of Section 3.2(c) and Code section 409A specifically relating to a change and/or revocation of deferral elections related to a Participant's Disability or an Unforeseeable Financial Emergency or a hardship distribution under the Qualified Plan.
- (b) **Allocations to Measurement Funds.** The Participant may add, delete or change allocations to one or more Measurement Funds used to determine the amounts to be credited or debited to his or her Account Balance by submitting an Election Form that is accepted by the Committee. Allocations may be made in one percent (1%) increments. Election changes will be applied as follows:
- (i) **Changes.** Changes to allocations for future deferrals will be applied to the next contribution period following the date of the election.
 - (ii) **Exchanges.** Exchanges to allocations to Measurement Funds shall be applied at the close of the next market day following the date the election is received by the Committee.
- (c) **Subsequent changes to Time and Form of Payment.** A Participant may elect one time to change the time or form of payment elected for his Deferral Account attributable to Annual Deferral Amounts for any Plan Year, and for his Company Matching Account attributable to Company Matching Contributions that were made for any Plan Year prior to 2013, only in accordance with this Section 3.2(c). Any election under this Section 3.2(c) must comply with Code Section 409A and the regulations and other guidance thereunder. Except as permitted under this Plan with respect to an Unforeseeable Financial Emergency or as described in Section 7.5, a Participant may not elect to accelerate the date payment is to be made or commenced. A Participant may elect to delay the time payment is to be made or commenced, and may change the form of payment from lump sum to installments, or vice versa, only if the following conditions are met:
- (i) the election is received by the Committee not less than twelve (12) months before the date payment would have otherwise been made or commenced without regard to this election;
 - (ii) the election shall not take effect until at least twelve (12) months after the date on which the election is received by the Committee; and

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- (iii) except in the case of payment on account of death or Disability, payment pursuant to the election shall not be made or commenced sooner than five (5) years from the date payment would have otherwise been made or commenced without regard to this election.

For these purposes, installment payments shall be treated as a single payment, with the result that an election to change from installments to a lump sum will require that the lump sum be postponed until a date which is at least five (5) years after the scheduled payment date of the first installment.

ARTICLE 4

Company Contribution Amounts/Vesting

- 4.1 **Annual Company Matching Contributions.** A Participant's Annual Company Matching Contributions for any Plan Year shall be determined by the Participant's Employer. In order to receive Annual Company Matching Contributions with respect to a Plan Year, the Participant shall have contributed through elective compensation deferrals in the Qualified Plan, an amount equal to the maximum deferral permitted under the Qualified Plan for the Plan Year, and shall be an Employee as of the last day of the Plan Year. If the Participant fulfills these requirements with respect to a Plan Year, the Annual Company Matching Contributions shall be equal to (i) the Employer matching contribution that would have been provided to the Participant in the Qualified Plan, assuming that the Annual Deferral Amount had been included in the definition of compensation in the Qualified Plan, and assuming further that the limitations of IRC Sections 401(a)(17), 402(g)(1) and 415 did not apply, minus (ii) the amount of the Employer matching contribution provided to the Participant during such Plan Year under the Qualified Plan. The amount so credited to a Participant under this Plan shall be the Annual Company Matching Contributions for that Plan Year and shall be credited to the Participant's Company Matching Account on a date or dates to be determined by the Committee, in its sole discretion. Effective January 1, 2013, no further Company Matching Contributions will be made with respect to any Compensation paid or Annual Deferrals made after December 31, 2012.
- 4.2 **Discretionary Company Contributions.** Apart from the Annual Company Matching Contribution, the Committee may make discretionary contributions for any Participant under this Plan at the times and in the amount(s) designated by the Participant's Employer, in its sole discretion. Amounts so credited to a Participant under this Plan shall be credited to the Participant's Discretionary Company Contributions Account.
- 4.3 **Vesting.**
- (a) **Participant Contributions.** A Participant shall at all times be 100% vested in his or her Deferral Account.

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- (b) **Annual Company Matching Contributions**. A Participant's Company Matching Contributions Account shall be vested to the same extent as the Participant's matching contributions account under the Qualified Plan.
 - (c) **Discretionary Company Contributions**. Unless otherwise determined by the Committee prior to awarding any Discretionary Company Contributions, amounts credited to a Participant's Discretionary Company Contributions Account shall be vested to the same extent as the Participant's matching contributions account under the Qualified Plan.

ARTICLE 5
Crediting/Taxes

5.1 **Crediting/Debiting of Account Balances**. Subject to the rules and procedures that are established from time to time by the Committee, amounts shall be credited or debited to a Participant's Account Balance in accordance with the performance of the Measurement Funds selected by the Participant under Sections 3.1(b) and 3.2(b). The performance of such Measurement Funds (either positive or negative) shall be determined by the Committee in its sole discretion.

5.2 **Employer-Provided Benefits, FICA and Other Taxes**.

- (a) **Annual Deferral Amounts**. For each Plan Year in which an Annual Deferral Amount is being withheld from a Participant, the Participant's Employer shall withhold from that portion of the Participant's Salary and Bonus, that are not being deferred, in a manner determined by the Employer, the Participant's share of any Employer-provided welfare and fringe benefits elected by the Participant and/or FICA or other employment taxes on such Annual Deferral Amount, as determined by the Committee in its sole discretion. If necessary, the Committee may reduce the Annual Deferral Amount in order to satisfy the Participant's election with respect to Employer-provided welfare and fringe benefits and the Employer's obligation to withhold FICA and other employment taxes.
- (b) **Company Matching Account**. When a Participant becomes vested in a portion of his or her Company Matching Account the Participant's Employer shall withhold from the Participant's Salary and Bonus that are not being deferred, in a manner determined by the Employer, the Participant's share of FICA and/or other employment taxes, as determined by the Committee in its sole discretion. If necessary, the Committee may reduce the vested portion of the Participant's Company Matching Account, as applicable, in order to comply with this Section 5.2.
- (c) **Distributions**. A Participant's Employer, or the trustee of the Trust, shall withhold from any payments made to the Participant under this Plan all federal, state and local income, employment and other taxes required to be withheld by the Employer, or the trustee of the Trust, in connection with such payments, in amounts and in a manner to be determined in the sole discretion of the Employer, or the trustee of the Trust.

ARTICLE 6
Unforeseeable Financial Emergencies

If the Participant experiences an Unforeseeable Financial Emergency, the Participant may petition the Committee (i) to revoke deferrals of Salary and/or Bonus elected by such Participant or (ii) to revoke deferrals of Salary and Bonus elected by such Participant and receive a partial or full payout from the Plan. Any such payout shall not exceed the lesser of the Participant's vested Account Balance, calculated as if such Participant were receiving a Termination Benefit, or the amount reasonably needed to satisfy the Unforeseeable Financial Emergency. A Participant may not receive a payout from the Plan to the extent that the Unforeseeable Financial Emergency is or may be relieved (i) through reimbursement or compensation by insurance or otherwise, (ii) by liquidation of the Participant's assets, to the extent the liquidation of such assets would not itself cause severe financial hardship or (iii) by revocation of deferrals under this Plan.

ARTICLE 7
Distributions/Payments

7.1 In-Service Date-Based Distribution.

- (a) **Annual Contributions.** In connection with each election to defer Annual Contributions, a Participant may elect to receive an In-Service Distribution from the Plan with respect to all or a portion of such Annual Deferral Amounts credited for such Plan Year. The In-Service Distribution shall be a lump sum payment in an amount that is equal to the portion of the Annual Deferral Amounts that the Participant elected to have distributed as an In-Service Distribution, plus amounts credited or debited in the manner provided in Section 5.1 on that amount, calculated as of the close of business on or around the date on which the In-Service Distribution becomes payable, as determined by the Committee in its sole discretion.
- (b) **Payment of In-Service Distributions.** Subject to the other terms and conditions of this Plan, each In-Service Distribution elected shall be paid out on the first Payment Date commencing immediately after the date designated by the Participant.
- (c) **Other Benefits Take Precedence Over In-Service Distributions.** Should an event occur that triggers a benefit under this Article 7, Article 8 or Article 9, any Annual Deferral Amounts, plus amounts credited or debited thereon, that is subject to an In-Service Distribution election under Section 7.1 shall not be paid in accordance with Section 7.1 but shall be paid in accordance with the other applicable Article or Section.

- 7.2 Disability Benefit.** A Participant may elect to receive a Disability Benefit equal to the Account Balance attributable to Annual Contributions for the Plan Year in one of the following forms: (i) a single lump sum payment, or (ii) installment payments over one

(1) to fifteen (15) years according to the Installment Method. If the Participant fails to make an election as to the time and form of payment for a Disability Benefit, the election shall default to a single lump sum payment.

7.3 **Termination Benefit.** A Participant may elect to receive a Termination Benefit equal to the vested Account Balance attributable to Annual Contributions for the Plan Year in one of the following forms: (i) a single lump sum payment, or (ii) installment payments over one (1) to fifteen (15) years according to the Installment Method. If the Participant fails to make an election as to the time and form of payment for a Termination Benefit, the election shall default to a single lump sum payment. Unless otherwise delayed according to Section 7.4, a Termination Benefit will be paid (or if paid in installments, will commence to be paid) within ninety (90) days following the earlier of the date of death of the Participant, or the date that is six (6) months after the Participant's Termination of Employment.

7.4 **Delay of Payment.** Notwithstanding any other provision in the Plan, the payment of amounts deferred under the Plan will be delayed as follows:

- (a) **Application of Code Section 162(m).** If the Company reasonably anticipates that any portion of the benefit payable under the Plan to any Participant could be nondeductible under Code section 162(m) (or cause other amounts payable by the Company to be nondeductible under Code section 162(m)), then the payment of such portion of the benefit to such Participant shall be delayed until the earliest date on which the Company reasonably anticipates that the deduction will not be limited or eliminated by application of Code section 162(m), provided that where any scheduled payment to the Participant in the Company's taxable year is delayed in accordance with this paragraph, the delay in payment will be treated as a subsequent deferral election unless all scheduled payments to that Participant that could be delayed in accordance with this paragraph are also delayed. Where the payment is delayed to a date on or after the Participant's Termination of Employment, payment will be made during the period ending on the later of the last day of the Company's taxable year in which the Termination of Employment occurs or the 15th day of the third month following the Termination of Employment; provided that no payment shall be made before the date that is six months following the Participant's Termination of Employment. For purposes of this Plan, all Participants shall be considered specified employees within the meaning of Treas. Reg. section 1.409A-1(i).
- (b) **Other Event Permitted by Section 409A.** If the Committee so determines, payment of amounts under the Plan may be delayed as permitted under Code section 409A, as if stated in the Plan, for example, if the Company reasonably anticipates that making a payment will violate a term of any Company loan agreement, jeopardize the ability of the Company to continue as a going concern if paid as scheduled or the payment may violate securities laws (or other applicable law).

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- 7.5 **Acceleration of Payment.** Notwithstanding any other provision in the Plan, the payment of amounts deferred under the Plan will be accelerated as follows:
- (a) **De Minimis Payments.** Notwithstanding the foregoing, if at the time of the Participant's Termination of Employment, the Participant's vested Account Balance, and the Participant's entire interest under all other arrangements required to be aggregated with this Plan pursuant to Treasury Regulation section 1.409A-1(c)(2), is less than the applicable dollar amount under Code Section 402(g)(1)(B) (\$17,000 for 2012), then the Participant's Account Balance shall be paid in a lump sum on the Payment Date of the seventh month after such Termination of Employment (or, if earlier, the date of death).
 - (b) **Other Events Permitted by Section 409A.** If the Committee so determines, in its sole discretion (without any direct or indirect election on the part of any Participant), the Committee may accelerate the date of distribution or commencement of distributions hereunder, or accelerate installment payments by paying the vested Account Balance in a lump sum or pursuant to a Installment Method using fewer years, to the extent permitted under Code section 409A (such as, for example, as provided in Section 1.409A-3(j)(4) of the Treasury regulations, to comply with domestic relations orders or certain conflict of interest rules, to pay employment taxes, to make a lump sum cashout of certain de minimis amounts that are less than the applicable dollar amount under Code section 402(g)(1)(B), or to make payments upon income inclusion under Code section 409A).

ARTICLE 8
Disability Waiver and Benefit

8.1 **Disability Waiver.**

- (a) **Cancellation of Deferral.** Subject to Section 409A, if it is determined that a Participant is suffering from a Disability, such Participant's deferrals shall thereupon be cancelled by the later of the end of the Plan Year or the fifteenth day of the third month following the date the Participant incurs a Disability.
- (b) **Return to Work.** If a Participant returns to employment with the Employer after a Disability ceases, the Participant may elect to defer an Annual Deferral Amount for the Plan Year following his or her return to employment and for every Plan Year thereafter while a Participant in the Plan, provided such deferral elections are otherwise allowed and an Election Form is delivered to and accepted by the Committee for each such election in accordance with Section 3.1 above.

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- 8.2 **Disability Benefit.** Upon a determination that a Participant is Disabled, Participant shall receive payments according to the Participant's election for Disability Benefit under Section 7.2. Unless otherwise delayed according to Section 7.4, a Disability Benefit shall commence on the first regular payment date following a forty-five (45) day period following the date the Participant incurred a Disability.

ARTICLE 9
Survivor Benefit

- 9.1 **Survivor Benefit.** A Participant's Beneficiary(ies) shall receive a benefit upon the Participant's death which will be equal to (i) the Participant's vested Account Balance, determined as of the date before the applicable Payment Date, if the Participant dies prior to his or her Termination of Employment or Disability, or (ii) the Participant's unpaid Termination Benefit or Disability Benefit, determined as of the date before the applicable Payment Date, if the Participant dies before his or her Termination Benefit or Disability Benefit is paid in full (the "Survivor Benefit").
- 9.2 **Payment of Survivor Benefit.** The Survivor Benefit shall be paid to the Participant's Beneficiary(ies) in a lump sum payment within ninety (90) days following the date of the Participant's death.

ARTICLE 10
Beneficiary Designation

- 10.1 **Beneficiary.** Each Participant shall have the right, at any time, to designate his or her Beneficiary(ies) (both primary as well as contingent) to receive benefits payable under the Plan upon the death of such a Participant. The Beneficiary designated under this Plan may be the same as or different from the Beneficiary designated under any other plan of an Employer in which the Participant participates.
- 10.2 **Beneficiary Designation; Change of Beneficiary Designation.** A Participant shall designate his or her Beneficiary by completing and delivering the Beneficiary Designation Form to the Committee or its designated agent. A Participant shall have the right to change a Beneficiary by completing and delivering a new Beneficiary Designation Form to the Committee. Upon the acceptance by the Committee of a new Beneficiary Designation Form, all Beneficiary designations previously filed shall be canceled. The Committee shall be entitled to rely on the last Beneficiary Designation Form filed by the Participant and accepted by the Committee prior to his or her death. No designation or change in designation of a Beneficiary shall be effective until received by the Committee or its designated agent. In the event a Participant becomes divorced or legally separated from his or her spouse, any Beneficiary Designation Form designating such spouse as a beneficiary shall automatically be null and void as of the date of such divorce or legal separation; provided, however, that the Participant may designate such spouse (or former spouse) as a beneficiary under a new Beneficiary Designation Form.

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- 10.3 **No Beneficiary Designation**. If a Participant fails to designate a Beneficiary as provided in Sections 10.1 and 10.2 above or, if all designated Beneficiaries predecease the Participant or die prior to complete distribution of the Participant's benefits, then the Participant's Beneficiary shall be his or her surviving spouse. If the Participant has no surviving spouse, the Participant's Survivor Benefit shall be payable to the executor or personal representative of the Participant's estate.
- 10.4 **Doubt as to Beneficiary**. If the Committee has any doubt as to the proper Beneficiary with respect to a Participant, the Committee shall have the right, exercisable in its discretion, to withhold payments until this matter is resolved to the Committee's satisfaction.

ARTICLE 11
Leave of Absence

- 11.1 **Paid Leave of Absence**. If a Participant is on a paid leave of absence authorized by the Participant's Employer, (i) the Participant shall continue to be considered eligible for the benefits provided in Articles 6, 7 or 8 in accordance with the provisions of those Articles, and (ii) the Annual Deferral Amount subject to a deferral election shall continue to be withheld during such paid leave of absence in accordance with Section 3.1.
- 11.2 **Unpaid Leave of Absence**. If a Participant is authorized by the Participant's Employer to take an unpaid leave of absence from the employment of the Employer for any reason, such Participant shall continue to be eligible for the benefits provided in Articles 6, 7 or 8 in accordance with the provisions of those Articles. However, the Participant shall be excused from fulfilling the Annual Deferral Amount commitment that would otherwise have been withheld during the remainder of the Plan Year in which the unpaid leave of absence is taken. During the unpaid leave of absence, the Participant shall not be allowed to make any additional deferral elections. However, if the Participant returns to active employment, the Participant may make deferral elections during the next Open Enrollment provided the Participant is selected by the Committee as eligible to make a deferral election and an Election Form is delivered to and accepted by the Committee for each such election in accordance with Section 3.1 above.

ARTICLE 12
Termination, Amendment or Modification

- 12.1 **Termination**. Although the Company anticipates that it will continue the Plan for an indefinite period of time, there is no guarantee that the Company will continue the Plan or will not terminate the Plan at any time in the future. Accordingly, the Company reserves the right to terminate and liquidate the Plan in the event of a corporate dissolution, change in control, or other event in accordance with Treas. Reg. §1.409A-3(j)(4)(ix).

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- 12.2 **Amendment**. The Company may, at any time, amend or modify the Plan in whole or in part by the action of the Board; provided, however, that: (i) no amendment or modification shall be effective to decrease or restrict the value of a Participant's vested Account Balance in existence at the time the amendment or modification is made, calculated as if the Participant had experienced a Termination of Employment as of the effective date of the amendment or modification; and (ii) no amendment or modification of this Section 12.2 shall be effective. The amendment or modification of the Plan shall not affect any Participant or Beneficiary who has become entitled to the payment of benefits under the Plan as of the date of the amendment or modification.
- 12.3 **Release**. Any payment of benefits to or for the benefit of a Participant or Beneficiaries that is made in good faith by the Company in accordance with the Company's interpretation of its obligations hereunder shall be in full satisfaction of all claims against the Company for benefits under this Plan to the extent of such payment.
- 12.4 **Amendment to Ensure Proper Characterization of the Plan**. Notwithstanding the previous Sections of this Article 12, the Plan may be amended at any time, retroactively if determined by the Committee to be necessary, in order to conform the Plan to the provisions of Code Section 409A and to ensure that amounts under the Plan are not considered to be taxed to a Participant under the Federal income tax laws prior to the Participant's receipt of the amounts or to conform the Plan and the Trust to the provisions and requirements of any applicable law (including ERISA and the Code).

ARTICLE 13
Administration

- 13.1 **Administration**. Except as otherwise provided herein, the Plan shall be administered by the Committee.
- 13.2 **Powers of the Committee**. In addition to the other powers granted under the Plan, the Committee shall have all powers necessary to administer the plan, including without limitation, powers:
- (a) to interpret the provisions of this Plan;
 - (b) to establish and revise the method of accounting for the Plan and to maintain the Accounts; and
 - (c) to establish rules for the administration of the Plan and to prescribe any forms required to administer the Plan.

Not in limitation, but in amplification of the foregoing and of the authority conferred upon the Committee in Section 13.1, the Company specifically intends that the Committee 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 Committee 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 Company or any member of the Committee. The Committee may, in its sole discretion, discontinue, substitute or add a Measurement Fund. Each such action will take effect as of the first day of the first calendar quarter that begins at least thirty (30) days after the day on which the Committee gives Participants advance written notice of such change.

- 13.3 **Delegation**. The Committee, or any officer of the Company designated by the Committee, shall have the power to delegate specific duties and responsibilities to officers or other employees of the Company or other individuals or entities. Any delegation may be rescinded by the Committee at any time. Each person or entity to whom a duty or responsibility has been delegated shall be responsible for the exercise of such duty or responsibility and shall not be responsible for any act or failure to act of any other person or entity.
- 13.4 **Binding Effect of Decisions**. The decision or action of the Committee with respect to any question arising out of or in connection with the administration, interpretation and application of the Plan and the rules and regulations promulgated hereunder shall be final, conclusive and binding upon all persons having or claiming to have any interest or right in the Plan.
- 13.5 **Indemnity of Committee**. The Company shall indemnify and hold harmless the members of the Committee and any employee of an Affiliate or entity to whom the duties of the Committee may be delegated against any and all claims, losses, damages, expenses or liabilities arising from any action or failure to act with respect to this Plan, except in the case of willful misconduct by the Committee, any of its members, any such employee or entity.
- 13.6 **Employer Information**. To enable the Committee to perform its functions, the Company and each Employer shall supply full and timely information to the Committee on all matters relating to the compensation of its Participants, the date and circumstances of the Disability, death or Termination of Employment of its Participants, and such other pertinent information as the Committee may reasonably require.
- 13.7 **Reports and Records**. The Committee and those to whom the Committee has delegated duties under the Plan, shall keep records of all of their proceedings and actions, and shall maintain books of account, records, and other data as shall be necessary for the proper administration of the Plan and for compliance with applicable law.

ARTICLE 14 **Claims Procedures**

- 14.1 **Presentation of Claim**. Any Participant or Beneficiary of a deceased Participant (such Participant or Beneficiary being referred to below as a "Claimant") may deliver to the Committee a written claim for a determination with respect to the amounts the

Claimant believes are distributable to him or her from the Plan. If such a claim relates to the contents of a notice received by the Claimant, the claim must be made within sixty (60) days after such notice was received by the Claimant. All other claims must be made within 180 days of the date on which the event that caused the claim to arise occurred. The claim must state with particularity the determination desired by the Claimant.

14.2 **Notification of Decision.** The Committee shall consider a Claimant's claim within a reasonable time, but no later than ninety (90) days after receiving the claim. If the Committee determines that special circumstances require an extension of time for processing the claim, written notice of the extension shall be furnished to the Claimant prior to the termination of the initial ninety (90) day period. In no event shall such extension exceed a period of ninety (90) days from the end of the initial period. The extension notice shall indicate the special circumstances requiring an extension of time and the date by which the Committee expects to render the benefit determination. The Committee shall notify the Claimant in writing:

- (a) that the Claimant's requested determination has been made, and that the claim has been allowed in full; or
- (b) that the Committee has reached a conclusion contrary, in whole or in part, to the Claimant's requested determination, and such notice must set forth in a manner calculated to be understood by the Claimant:
 - (i) the specific reason(s) for the denial of the claim, or any part of it;
 - (ii) specific reference(s) to pertinent provisions of the Plan upon which such denial was based;
 - (iii) a description of any additional material or information necessary for the Claimant to perfect the claim, and an explanation of why such material or information is necessary;
 - (iv) an explanation of the claim review procedure set forth in Section 14.4 below; and
 - (v) a statement of the Claimant's right to bring a civil action under ERISA Section 502(a) following an adverse benefit determination on review.

14.3 **Review of a Denied Claim.** On or before sixty (60) days after receiving notice from the Committee that a claim has been denied, in whole or in part, a Claimant (or the Claimant's duly authorized representative) may file with the Committee a written request for review of the denial of the claim. The Claimant (or the Claimant's duly authorized representative):

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- (a) may, upon request and free of charge, have reasonable access to, and copies of, all documents, records and other information relevant to the claim for benefits;
 - (b) may submit written comments or other documents; and/or
 - (c) may request a hearing, which the Committee, in its sole discretion, may grant.
- 14.4 **Decision on Review.** The Committee shall render its decision on review promptly, and no later than sixty (60) days after the Committee receives the Claimant's written request for a review of the denial of the claim. If the Committee determines that special circumstances require an extension of time for processing the claim, written notice of the extension shall be furnished to the Claimant prior to the termination of the initial sixty (60) day period. In no event shall such extension exceed a period of sixty (60) days from the end of the initial period. The extension notice shall indicate the special circumstances requiring an extension of time and the date by which the Committee expects to render the benefit determination. In rendering its decision, the Committee shall take into account all comments, documents, records and other information submitted by the Claimant relating to the claim, without regard to whether such information was submitted or considered in the initial benefit determination. The decision must be written in a manner calculated to be understood by the Claimant, and it must contain:
- (a) specific reasons for the decision;
 - (b) specific reference(s) to the pertinent Plan provisions upon which the decision was based;
 - (c) a statement that the Claimant is entitled to receive, upon request and free of charge, reasonable access to and copies of, all documents, records and other information relevant (as defined in applicable ERISA regulations) to the Claimant's claim for benefits; and
 - (d) a statement of the Claimant's right to bring a civil action under ERISA Section 502(a).
- 14.5 **Legal Action.** A Claimant's compliance with the foregoing provisions of this Article 14 is a mandatory prerequisite to a Claimant's right to commence any legal action with respect to any claim for benefits under this Plan. No legal action with respect to any claim for benefits under this Plan may be commenced more than one year after a final decision on review of the claim.
- 14.6 **Disability Claims.** If a Participant's claim involves a determination of Disability, the following time periods shall apply in lieu of the time periods set forth in Sections 14.2 through 14.4. The Committee shall have 45 days to render its initial decision on a Claimant's claim, and an additional 30 days if the Committee determines that special circumstances require an extension of time to process the claim. If an adverse

decision involves a disability claim the notice of the decision shall also inform the Claimant that if a Plan guideline was relied on in making the adverse decision, a copy of the guideline will be provided to the Claimant, without charge, upon request. A Claimant shall have 180 days to appeal an initial adverse decision. The Committee shall render its decision on appeal within 45 days, with an extension of an additional 45 days if the Committee determines that special circumstances require an extension of time. The following additional rules apply to an appeal. First, the review will be conducted by a Plan fiduciary who did not make the original determination on the Claimant's claim and is not the subordinate of that person. Second, the Claimant shall be provided the identity of any medical or vocational experts whose advice was obtained in connection with the determination, whether or not the advice was relied on by such Plan fiduciary. Third, any health care professional who is engaged for a consultation on appeal will be a different person from and not subordinate to any health care professional who the Committee consulted for the initial determination.

ARTICLE 15

Funding

15.1 **Source of Benefits.** All benefits under the Plan shall be paid when due by the Company out of its assets or by a trustee from a trust established by the Company for that purpose. The Company may, but shall have no obligations to, make such advance provision for the payment of such benefit as the Board may from time to time consider appropriate.

15.2 **Trust.**

- (a) **Establishment of the Trust.** In order to provide assets from which to fulfill the obligations to the Participants and their Beneficiaries under the Plan, the Company may establish a Trust by a trust agreement with a third party trustee, to which each Employer may, in its discretion, contribute cash or other property, including securities issued by the Company, to provide for the benefit payments under the Plan.
- (b) **Interrelationship of the Plan and the Trust.** The provisions of the Plan and the Participant's Election Forms shall govern the rights of a Participant to receive distributions pursuant to the Plan. The provisions of a Trust shall govern the rights of the Employers, Participants and the creditors of the Employers to the assets transferred to the Trust. Each Employer shall at all times remain liable to carry out its obligations under the Plan.
- (c) **Distributions From the Trust.** Each Employer's obligations under the Plan may be satisfied with Trust assets distributed pursuant to the terms of a Trust, and any such distribution shall reduce the Employer's obligations under this Plan.

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- 15.3 **No Claim on Specific Assets.** No Participant shall be deemed to have, by virtue of being a Participant in the Plan, any claim on any specific assets of the Company such that the Participant would be subject to income taxation on his or her benefits under the Plan prior to distribution, and the rights of Participants and Beneficiaries to benefits to which they are otherwise entitled under the Plan shall be those of an unsecured creditor of the Company.
- 15.4 **Unfunded.** This Plan is unfunded and payable solely from the general assets of the Company. The Participants and Beneficiaries shall be unsecured creditors of the Company with respect to their interests in the Plan.

ARTICLE 16
Miscellaneous

- 16.1 **Status of Plan.** The Plan is intended to be a plan that is not qualified within the meaning of Code Section 401(a) and that "is unfunded and is maintained by an employer primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees" within the meaning of ERISA Sections 201(2), 301(a)(3) and 401(a)(1). The Plan shall be administered and interpreted to the extent possible in a manner consistent with that intent.
- 16.2 **Employer's Liability.** An Employer's liability for the payment of benefits shall be defined only by the Plan. An Employer shall have no obligation to a Participant under the Plan except as expressly provided in the Plan.
- 16.3 **Nonassignability.** Neither a Participant nor any other person shall have any right to commute, sell, assign, transfer, pledge, anticipate, mortgage or otherwise encumber, transfer, hypothecate, alienate or convey in advance of actual receipt, the amounts, if any, payable hereunder, or any part thereof, which are, and all rights to which are expressly declared to be, unassignable and non-transferable. No part of the amounts payable shall, prior to actual payment, be subject to seizure, attachment, garnishment or sequestration for the payment of any debts, judgments, alimony or separate maintenance owed by a Participant or any other person, be transferable by operation of law in the event of a Participant's or any other person's bankruptcy or insolvency or be transferable to a spouse as a result of a property settlement or otherwise, except as provided in Section 16.14.
- 16.4 **Withholding.** The Company may withhold from any payment of benefits under the Plan such amounts as the Company determines are reasonably necessary to pay any taxes (and interest thereon) required to be withheld or for which the Company may become liable under applicable law. Any amounts withheld pursuant to this Section 16.4 in excess of the amount of taxes due (and interest thereon) shall be paid to the Participant or Beneficiary upon final determination, as determined by the Company, of such amount. No interest shall be payable by the Company to any Participant or Beneficiary by reason of any amounts withheld pursuant to this Section 16.4.

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- 16.5 **Section 409A Compliance.** To the extent provisions of this Plan do not comply with 409A of the Code, the non-compliant provisions shall be interpreted and applied in the manner that complies with 409A of the Code and implements the intent of this Plan as closely as possible.
- 16.6 **Not a Contract of Employment.** The terms and conditions of this Plan shall not be deemed to constitute a contract of employment between any Employer and the Participant. Such employment is hereby acknowledged to be an "at will" employment relationship that can be terminated at any time for any reason, or no reason, with or without cause, and with or without notice, unless expressly provided in a written employment agreement. Nothing in this Plan shall be deemed to give a Participant the right to be retained in the service of any Employer or to interfere with the right of any Employer to discipline or discharge the Participant at any time.
- 16.7 **Furnishing Information.** A Participant or his or her Beneficiary will cooperate with the Committee by furnishing any and all information requested by the Committee and take such other actions as may be requested in order to facilitate the administration of the Plan and the payments of benefits hereunder, including but not limited to taking such physical examinations as the Committee may deem necessary.
- 16.8 **Terms.** Whenever any words are used herein in the masculine, they shall be construed as though they were in the feminine in all cases where they would so apply; and whenever any words are used herein in the singular or in the plural, they shall be construed as though they were used in the plural or the singular, as the case may be, in all cases where they would so apply.
- 16.9 **Captions.** The captions of the articles, sections and paragraphs of this Plan are for convenience only and shall not control or affect the meaning or construction of any of its provisions.
- 16.10 **Governing Law.** Subject to ERISA, the provisions of this Plan shall be construed and interpreted according to the internal laws of the State of Missouri without regard to its conflicts of laws principles.
- 16.11 **Notice.** Any notice or filing required or permitted to be given to the Committee under this Plan shall be sufficient if in writing and hand-delivered, or sent by registered or certified mail, to the address below:

H&R Block, Inc.
Attn: Corporate Secretary
One H&R Block Way
Kansas City, MO 64105

Such notice shall be deemed given as of the date of delivery or, if delivery is made by mail, as of the date shown on the postmark on the receipt for registration or certification.

Any notice or filing required or permitted to be given to a Participant under this Plan shall be sufficient if in writing and hand-delivered, or sent by mail, to the last known address of the Participant.

- 16.12 **Successors.** The provisions of this Plan shall bind and inure to the benefit of the Participant's Employer and its successors and assigns and the Participant and the Participant's designated Beneficiaries.
- 16.13 **Spouse's Interest.** The interest in the benefits hereunder of a spouse or former spouse of a Participant who has predeceased the Participant shall automatically pass to the Participant and shall not be transferable by such spouse in any manner, including but not limited to such spouse's will, nor shall such interest pass under the laws of intestate succession.
- 16.14 **Validity.** In case any provision of this Plan shall be illegal or invalid for any reason, said illegality or invalidity shall not affect the remaining parts hereof, but this Plan shall be construed and enforced as if such illegal or invalid provision had never been inserted herein.
- 16.15 **Incompetent.** If the Committee determines in its discretion that a benefit under this Plan is to be paid to a minor, a person declared incompetent or to a person incapable of handling the disposition of that person's property, the Committee may direct payment of such benefit to the guardian, legal representative or person having the care and custody of such minor, incompetent or incapable person. The Committee may require proof of minority, incompetence, incapacity or guardianship, as it may deem appropriate prior to distribution of the benefit. Any payment of a benefit shall be a payment for the account of the Participant and the Participant's Beneficiary, as the case may be, and shall be a complete discharge of any liability under the Plan for such payment amount.
- 16.16 **Court Order.** The Committee is authorized to make any payments directed by court order in any action in which the Plan or the Committee has been named as a party. In addition, if a court determines that a spouse or former spouse of a Participant has an interest in the Participant's benefits under the Plan in connection with a property settlement or otherwise, the Committee, in its sole discretion, shall have the right, notwithstanding any election made by a Participant, to immediately distribute the spouse's or former spouse's interest in the Participant's benefits under the Plan to that spouse or former spouse.
- 16.17 **Distribution in the Event of Taxation.** If because of the application of section 409A of the Code, all or any portion of a Participant's benefits under this Plan becomes taxable to the Participant prior to receipt, an Employer shall distribute, or shall cause the Trustee to distribute, to the Participant immediately available funds in an amount equal to the taxable portion of his or her benefit (which amount shall not exceed a Participant's unpaid vested Account Balance under the Plan). The distribution of that portion of his or her benefit that has become taxable shall be made within 90 days of the date when the Participant's benefit becomes taxable. Such a distribution shall affect and reduce the benefits to be paid under this Plan by the amount distributed.

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- 16.18 **Insurance.** An Employer, on its own behalf or on behalf of the trustee of a Trust, and, in its sole discretion, may apply for and procure insurance on the life of the Participant, in such amounts and in such forms as it may choose. An Employer or the trustee of a Trust, as the case may be, shall be the sole owner and beneficiary of any such insurance. No Participant shall have any interest whatsoever in any such policy or policies, and at the request of an Employer or trustee desiring to purchase such insurance a Participant shall submit to medical examinations and supply such information and execute such documents as may be required by the insurance company or companies to whom the Employer or trustee have applied for insurance.
- 16.19 **Aggregation of Employers.** If the Company is a member of a controlled group of corporations or a group of trades or business under common control (as described in Code Section 414(b) or (c), but substituting a fifty percent (50%) ownership level for the eighty percent (80%) level set forth in those Code Sections), all members of the group shall be treated as a single Company for purposes of whether there has occurred a Termination of Employment and for any other purposes under the Plan as Section 409A shall require.
- 16.20 **Aggregation of Plans.** If the Company offers other account balance deferred compensation plans in addition to the Plan, those plans together with the Plan shall be treated as a single plan to the extent required under Section 409A for purposes of determining whether an Employee may make a deferral election pursuant to Section 3.3(a) within thirty (30) days of becoming eligible to participate in the Plan and for any other purposes under the Plan as Section 409A shall require.
- 16.21 **USERRA.** Notwithstanding anything herein to the contrary, any deferral or distribution election provided to a Participant as necessary to satisfy the requirements of the Uniformed Services Employment and Reemployment Rights Act of 1994, as amended, shall be permissible hereunder.

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

I, William C. Cobb, Chief Executive Officer, certify that:

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

Date: December 6, 2012

/s/ William C. Cobb

William C. Cobb
Chief Executive Officer
H&R Block, Inc.

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

I, Gregory J. Macfarlane, Chief Financial Officer, certify that:

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

Date: December 6, 2012

/s/ Gregory J. Macfarlane

Gregory J. Macfarlane
Chief Financial Officer
H&R Block, Inc.

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

In connection with the quarterly report of H&R Block, Inc. (the "Company") on Form 10-Q for the fiscal quarter ending October 31, 2012 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, William C. Cobb, Chief Executive Officer of the Company, certify pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/ William C. Cobb
William C. Cobb
Chief Executive Officer
H&R Block, Inc.
December 6, 2012

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

In connection with the quarterly report of H&R Block, Inc. (the "Company") on Form 10-Q for the fiscal quarter ending October 31, 2012 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Gregory J. Macfarlane, 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/ Gregory J. Macfarlane

Gregory J. Macfarlane
Chief Financial Officer
H&R Block, Inc.
December 6, 2012