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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended July 31, 2007

OR

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

For the transition period from _____ to _____

Commission file number 1-6089

H&R Block, Inc.

(Exact name of registrant as specified in its charter)

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

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

Large accelerated filer ☑ Accelerated filer o Non-accelerated filer o

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

The number of shares outstanding of the registrant's Common Stock, without par value, at the close of business on August 31, 2007 was 324,632,718 shares.

Form 10-Q for the Period Ended July 31, 2007

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

	July 31, 2007 (Unaudited)	April 30, 2007
ASSETS		
Cash and cash equivalents	$ 437,671	$ 921,838
Cash and cash equivalents — restricted	287,789	332,646
Receivables from customers, brokers, dealers and clearing organizations, less allowance for doubtful accounts of $2,314 and $2,292	404,420	410,522
Receivables, less allowance for doubtful accounts of $95,530 and $99,259	423,450	556,255
Prepaid expenses and other current assets	224,834	208,564
Current assets of discontinued operations, held for sale	1,110,427	1,024,467
Total current assets	2,888,591	3,454,292
Mortgage loans held for investment, less allowance for loan losses of $4,585 and $3,448	1,241,281	1,358,222
Property and equipment, at cost less accumulated depreciation and amortization of $656,335 and $647,151	372,235	379,066
Intangible assets, net	173,799	181,413
Goodwill	1,006,278	993,919
Other assets	484,081	454,646
Noncurrent assets of discontinued operations, held for sale	701,805	722,492
Total assets	$ 6,868,070	$ 7,544,050
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Commercial paper and other short-term borrowings	$ 1,651,237	$ 1,567,082
Customer banking deposits	1,039,238	1,129,263
Accounts payable to customers, brokers and dealers	615,858	633,189
Accounts payable, accrued expenses and other current liabilities	398,864	519,372
Accrued salaries, wages and payroll taxes	131,274	307,854
Accrued income taxes	113,739	439,472
Current portion of long-term debt	9,371	9,304
Current liabilities of discontinued operations, held for sale	750,782	615,373
Total current liabilities	4,710,363	5,220,909
Long-term debt	519,803	519,807
Other noncurrent liabilities	556,542	388,835
Total liabilities	5,786,708	6,129,551
Stockholders' equity:		
Common stock, no par, stated value $.01 per share, 800,000,000 shares authorized, 435,890,796 shares issued at July 31, 2007 and April 30, 2007	4,359	4,359
Additional paid-in capital	671,647	676,766
Accumulated other comprehensive income (loss)	2,528	(1,320)
Retained earnings	2,530,207	2,886,440
Less cost of 111,344,662 and 112,671,610 shares of common stock in treasury	(2,127,379)	(2,151,746)
Total stockholders' equity	1,081,362	1,414,499
Total liabilities and stockholders' equity	$ 6,868,070	$ 7,544,050

See Notes to Condensed Consolidated Financial Statements

H&R BLOCK

CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

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

Three months ended July 31,	2007	2006
Revenues:		
Service revenues	$ 321,663	$ 302,796
Other revenues:		
Interest income	41,838	25,710
Product and other revenues	17,708	14,264
	381,209	342,770
Operating expenses:		
Cost of services	383,400	363,525
Cost of other revenues	43,529	18,207
Selling, general and administrative	145,824	149,071
	572,753	530,803
Operating loss	(191,544)	(188,033)
Interest expense	(595)	(12,135)
Other income, net	8,559	6,194
Loss from continuing operations before tax benefit	(183,580)	(193,974)
Income tax benefit	(73,757)	(76,135)
Net loss from continuing operations	(109,823)	(117,839)
Loss from discontinued operations, net of tax	(192,757)	(13,538)
Net loss	$ (302,580)	(131,377)
Basic and diluted loss per share:		
Net loss from continuing operations	$ (0.34)	$ (0.36)
Net loss from discontinued operations	(0.59)	(0.05)
Net loss	$ (0.93)	$ (0.41)
Basic and diluted shares	323,864	323,671
Dividends per share	$ 0.14	$ 0.13
Comprehensive income (loss):		
Net loss	$ (302,580)	$ (131,377)
Change in unrealized gain on available-for-sale securities, net	(463)	(2,511)
Change in foreign currency translation adjustments	4,311	818
Comprehensive loss	$ (298,732)	$ (133,070)

See Notes to Condensed Consolidated Financial Statements

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited, amounts in 000s)

Three months ended July 31,	2007	2006
Cash flows from operating activities:		
Net loss	$ (302,580)	$ (131,377)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	37,075	34,627
Stock-based compensation expense	7,398	8,179
Changes in assets and liabilities of discontinued operations	115,486	175,207
Other, net of business acquisitions	(289,562)	(562,695)
Net cash used in operating activities	(432,183)	(476,059)
Cash flows from investing activities:		
Mortgage loans originated or purchased for investment, net	111,164	(135,161)
Purchases of property and equipment, net	(14,497)	(34,358)
Payments made for business acquisitions, net of cash acquired	(20,887)	(4,627)
Net cash provided by (used in) investing activities of discontinued operations	3,068	(3,871)
Other, net	6,699	1,774
Net cash provided by (used in) investing activities	85,547	(176,243)
Cash flows from financing activities:		
Repayments of commercial paper	(3,463,719)	(1,034,210)
Proceeds from issuance of commercial paper	3,622,874	1,223,566
Repayments of lines of credit borrowings	(560,000)	—
Proceeds from lines of credit borrowings	485,000	—
Customer deposits, net	(90,378)	404,030
Dividends paid	(43,937)	(40,485)
Purchase of treasury shares	—	(180,897)
Proceeds from exercise of stock options	9,788	6,791
Net cash used in financing activities of discontinued operations	(47,535)	(100)
Other, net	(49,624)	(53,549)
Net cash provided by (used in) financing activities	(137,531)	325,146
Net decrease in cash and cash equivalents	(484,167)	(327,156)
Cash and cash equivalents at beginning of the period	921,838	673,827
Cash and cash equivalents at end of the period	$ 437,671	$ 346,671
Supplementary cash flow data:		
Income taxes paid	$ 9,653	$ 190,378
Interest paid on borrowings	27,833	15,504
Interest paid on deposits	15,792	3,198

See Notes to Condensed Consolidated Financial Statements

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (unaudited amounts in 000s, except per share amounts)

	Common Stock		Convertible Preferred Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock		Total Equity
	Shares	Amount	Shares	Amount				Shares	Amount	
Balances at April 30, 2006	435,891	$4,359	—	$ —	$653,053	$ 21,948	$3,492,059	(107,378)	$(2,023,620)	$2,147,799
Net loss	—	—	—	—	—	—	(131,377)	—	—	(131,377)
Unrealized translation gain	—	—	—	—	—	818	—	—	—	818
Change in net unrealized gain on available-for-sale securities	—	—	—	—	—	(2,511)	—	—	—	(2,511)
Stock-based compensation	—	—	—	—	10,514	—	—	—	—	10,514
Shares issued for:										
Option exercises	—	—	—	—	(746)	—	—	461	8,756	8,010
Nonvested shares	—	—	—	—	(13,997)	—	—	719	13,687	(310)
ESPP	—	—	—	—	627	—	—	253	4,823	5,450
Acquisition of treasury shares	—	—	—	—	—	—	—	(8,370)	(186,339)	(186,339)
Cash dividends paid — $0.13 per share	—	—	—	—	—	—	(40,485)	—	—	(40,485)
Balances at July 31, 2006	435,891	$4,359	—	$ —	$649,451	$ 20,255	$3,320,197	(114,315)	$(2,182,693)	$1,811,569
Balances at April 30, 2007	435,891	$4,359	—	$ —	$676,766	$ (1,320)	$2,886,440	(112,672)	$(2,151,746)	$1,414,499
Remeasurement of uncertain tax positions upon adoption of FIN 48	—	—	—	—	—	—	(9,716)	—	—	(9,716)
Net loss	—	—	—	—	—	—	(302,580)	—	—	(302,580)
Unrealized translation gain	—	—	—	—	—	4,311	—	—	—	4,311
Change in net unrealized gain on available-for-sale securities	—	—	—	—	—	(463)	—	—	—	(463)
Stock-based compensation	—	—	—	—	9,226	—	—	—	—	9,226
Shares issued for:										
Option exercises	—	—	—	—	(1,431)	—	—	668	12,758	11,327
Nonvested shares	—	—	—	—	(13,349)	—	—	663	12,669	(680)
ESPP	—	—	—	—	400	—	—	218	4,161	4,561
Acquisitions	—	—	—	—	35	—	—	8	151	186
Acquisition of treasury shares	—	—	—	—	—	—	—	(230)	(5,372)	(5,372)
Cash dividends paid – $0.14 per share	—	—	—	—	—	—	(43,937)	—	—	(43,937)
Balances at July 31, 2007	435,891	$4,359	—	$ —	$671,647	$ 2,528	$2,530,207	(111,345)	$(2,127,379)	$1,081,362

See Notes to Condensed Consolidated Financial Statements

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. Basis of Presentation

The condensed consolidated balance sheet as of July 31, 2007, the condensed consolidated statements of income and comprehensive income for the three months ended July 31, 2007 and 2006, the condensed consolidated statements of cash flows for the three months ended July 31, 2007 and 2006, and the condensed consolidated statement of stockholders' equity for the three months ended July 31, 2007 have been prepared by the Company, without audit. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations, cash flows and changes in stockholders' equity at July 31, 2007 and for all periods presented have been made. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

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

Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted. These condensed consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in our April 30, 2007 Annual Report to Shareholders on Form 10-K.

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

Discontinued Operations – Recent Developments

On April 19, 2007, we entered into an agreement to sell Option One Mortgage Corporation (OOMC). In conjunction with this plan, we also announced we would terminate the operations of H&R Block Mortgage Corporation (HRBMC), a wholly-owned subsidiary of OOMC. During fiscal year 2007, we also committed to a plan to sell two smaller lines of business and completed the wind-down of one other line of business, all of which were previously reported in our Business Services segment. One of these businesses was sold during the three months ended July 31, 2007. Additionally, during fiscal year 2007, we completed the wind-down of our tax operations in the United Kingdom, which were previously reported in Tax Services. As of July 31, 2007, we continued to meet the criteria requiring us to present the related financial results of these businesses as discontinued operations and the assets and liabilities of the business being sold as held-for-sale in the condensed consolidated financial statements. All periods presented have been reclassified to reflect our discontinued operations.

The non-prime residential mortgage loan market has been adversely affected by a weakening housing market and increasing rates of delinquencies and defaults. Warehouse lenders have required significant margin calls from non-prime residential mortgage loan originators, including OOMC, due to declining values of non-prime residential mortgage loans and increasing levels of loans held for sale by lenders for longer periods of time due to softening secondary market conditions.

We have been significantly and negatively impacted by the events and conditions impacting the broader non-prime residential mortgage loan market. The softening secondary market conditions expose us to margin calls to cover declining values in loans held for sale. In addition, warehouse lenders have discretion over the sale of loans in the secondary market, which may result in losses on sales due to forced sales in depressed market conditions. These exposures are also influenced by loans being held for longer periods of time.

The declining mortgage market conditions continued in August 2007 and were compounded by illiquidity in the secondary market. In early August 2007, OOMC began only underwriting loan originations to the standards established by Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac). These new underwriting guidelines should enhance the overall credit quality of loans offered for sale, but will significantly reduce origination volume. We expect our loan originations will slow to a rate of about $200 million per month beginning in September 2007. Reductions in loan origination volumes and an increasing frequency of selling loans without retaining servicing rights may adversely impact our loan servicing business. OOMC announced reductions in its mortgage lending workforce and retail facilities in August 2007. The cost of these restructuring activities is estimated at $16 million to $20 million, which will be primarily reflected in the consolidated income statement for the quarter ended October 31, 2007. It is possible that OOMC may need to commit to additional restructuring activities. If current market conditions fail to improve, we believe there could be further impairments to our residual interests, beneficial interests in Trusts, and loans held for sale in our second quarter, potentially in the range of $150 to $200 million pretax. The actual amount of the second quarter impairment will ultimately depend primarily on market conditions at the end of the second quarter.

While we have taken steps to respond to the rapid and substantial decline in the non-prime residential mortgage loan market, there can be no assurances that such steps will be adequate in the event the non-prime residential loan market experiences additional or sustained market declines. If conditions in the mortgage industry continue to decline, our future operating losses from discontinued operations would continue to be negatively impacted.

We continue to expect to complete the sale of OOMC pursuant to the April 2007 agreement by December 31, 2007. However, we are not currently in compliance with certain closing conditions required by this agreement and do not believe we will be able to regain compliance with such closing conditions or maintain compliance through the anticipated closing date. We are currently in discussions with Cerberus Capital Management to have such conditions either waived or modified. We are also conducting ongoing discussion regarding potentially modifying the agreement, which may include only selling the servicing platform, although we currently believe it is unlikely that the existing agreement will ultimately be changed. Therefore, it is our intention to consummate the transaction under the existing agreement on or before December 31, 2007. If the sale is not consummated, then we would divest the servicing platform and either divest or wind-down the origination business. There are no assurances that the current agreement will be modified or that the transaction will close. Our condensed consolidated financial statements as of July 31, 2007 include an impairment charge which reflects our best estimate of the valuation of OOMC based on the terms of the existing agreement. See additional discussion in note 11. If the agreement is modified, we may incur additional impairment losses, which could be significant, beyond those that are provided in our financial statements. However, we are currently unable to estimate the amount of such additional impairment, if any, until the terms of a modified agreement are determined.

2. Earnings (Loss) Per Share

Basic and diluted loss per share is computed using the weighted average shares outstanding during each period. The dilutive effect of potential common shares is included in diluted earnings per share except in those periods with a loss from continuing operations. Diluted earnings per share excludes the impact of shares of common stock issuable upon the lapse of certain restrictions or the exercise of options to purchase 31.3 million shares and 32.9 million shares for the three months ended July 31, 2007 and 2006, respectively, as the effect would be antidilutive due to the net loss from continuing operations during each period.

The weighted average shares outstanding for the three months ended July 31, 2007 increased to 323.9 million from 323.7 million at July 31, 2006, primarily due the issuance of treasury shares related to our stock-based compensation plans.

During the three months ended July 31, 2007 and 2006, we issued 1.6 million and 1.4 million shares of common stock, respectively, pursuant to the exercise of stock options, employee stock purchases and awards of nonvested shares, in accordance with our stock-based compensation plans.

During the three months ended July 31, 2007, we acquired 0.2 million shares of our common stock, which represent shares swapped or surrendered to us in connection with the vesting of nonvested shares and the exercise of stock options, at an aggregate cost of $5.4 million. During the three months ended July 31, 2006, we

acquired 8.4 million shares of our common stock, of which 8.1 million shares were purchased from third parties with the remaining shares swapped or surrendered to us, at an aggregate cost of $186.3 million.

During the three months ended July 31, 2007, we granted 4.9 million stock options and 0.9 million nonvested shares and units in accordance with our stock-based compensation plans. The weighted average fair value of options granted was $4.54 for manager and director options and $3.07 for seasonal options. At July 31, 2007, the total unrecognized compensation cost for options and nonvested shares and units was $27.5 million and $52.2 million, respectively.

3. Goodwill and Intangible Assets

Changes in the carrying amount of goodwill of continuing operations for the three months ended July 31, 2007 consist of the following:

(in 000s)

	April 30, 2007	Additions	Other	July 31, 2007
Tax Services	$ 415,077	$ 12,833	$ 6,367	$ 434,277
Business Services	404,888	925	(7,766)	398,047
Consumer Financial Services	173,954	—	—	173,954
Total	$ 993,919	$ 13,758	$ (1,399)	$ 1,006,278

We test goodwill for impairment annually at the beginning of our fourth quarter, or more frequently if events occur indicating it is more likely than not the fair value of a reporting unit's net assets has been reduced below its carrying value. No impairments of goodwill were identified within any of our operating segments during the three months ended July 31, 2007.

Intangible assets of continuing operations consist of the following:

(in 000s)

	July 31, 2007			April 30, 2007		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Tax Services:						
Customer relationships	$ 43,650	$ (18,042)	$ 25,608	$ 39,347	$ (14,654)	$ 24,693
Noncompete agreements	22,925	(18,992)	3,933	21,237	(18,279)	2,958
Purchased technology	12,500	(815)	11,685	12,500	—	12,500
Trade name	1,025	(42)	983	1,025	—	1,025
Business Services:						
Customer relationships	143,263	(91,715)	51,548	142,315	(90,900)	51,415
Noncompete agreements	32,271	(15,725)	16,546	31,352	(15,524)	15,828
Trade name – amortizing	3,291	(2,772)	519	3,290	(2,430)	860
Trade name – non-amortizing	55,637	(4,868)	50,769	55,637	(4,868)	50,769
Consumer Financial Services:						
Customer relationships	293,000	(280,792)	12,208	293,000	(271,635)	21,365
Total intangible assets	$ 607,562	$ (433,763)	$ 173,799	$ 599,703	$ (418,290)	$ 181,413

Amortization of intangible assets for the three months ended July 31, 2007 and 2006 was $15.5 million and $14.7 million, respectively. Estimated amortization of intangible assets for fiscal years 2008 through 2012 is $45.7 million, $22.1 million, $19.1 million, $17.3 million and $14.6 million, respectively.

4. Borrowings

HRB Bank is a member of the Federal Home Loan Bank (FHLB) of Des Moines, which extends credit to member banks based on eligible collateral. At July 31, 2007, HRB Bank had FHLB advance capacity of $499.3 million, and there was $104.0 million outstanding on this facility. Mortgage loans held for investment of $1.2 billion were pledged as collateral on these advances.

At July 31, 2007, we maintained $2.0 billion in back-up credit facilities to support the commercial paper program and for general corporate purposes. These unsecured committed lines of

credit (CLOCs) have a maturity date of August 2010 and an annual facility fee in a range of six to fifteen basis points per annum, based on our credit ratings. Market conditions have negatively impacted the availability and term of commercial paper. As a result, subsequent to July 31, 2007 we drew a combined $1.2 billion under our $2.0 billion in available CLOCs. These borrowings under the CLOCs were made to provide a more stable source of funds to support our short-term cash needs. We have $633.8 million in outstanding commercial paper as of August 31, 2007, which we anticipate will be refinanced by funds available through the CLOCs. The CLOCs, among other things, require we maintain at least $650.0 million of Adjusted Net Worth, as defined in the agreement, on the last day of any fiscal quarter. We had Adjusted Net Worth of $1.1 billion at July 31, 2007, representing excess stockholders' equity of $450.0 million. We believe we will continue to be in compliance for the remaining term of the agreement.

5. Income Taxes

In June 2006, FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN 48) was issued. The interpretation clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes." The interpretation prescribes a recognition threshold and measurement attribute criteria for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

We adopted the provisions of FIN 48 on May 1, 2007 and, as a result, recognized a $9.7 million increase in the liability for unrecognized tax benefits resulting in a decrease to retained earnings as of May 1, 2007. Total unrecognized tax benefits as of May 1, 2007 were $133.3 million, of which $89.0 million were tax positions that, if recognized, would impact the effective tax rate.

We recognize interest and, if applicable, penalties related to unrecognized tax benefits as a component of income tax expense. As of May 1, 2007 we accrued $35.0 million for the potential payment of interest and penalties.

In the first quarter, we accrued an additional $4.1 million of interest related to our uncertain tax positions. As of July 31, 2007 we had unrecognized tax benefits of $132.2 million. The primary change during the quarter was related to payments made to taxing authorities for settlements of prior year tax positions. We have classified the liability for unrecognized tax benefits, including corresponding accrued interest, as long-term at July 31, 2007, which is included in other noncurrent liabilities on the condensed consolidated balance sheet. We also reclassified income tax refunds due to us totaling $44.6 million to other assets from accrued income taxes as of April 30, 2007.

Based upon the expiration of statutes of limitations and other factors in several jurisdictions, we believe it is reasonably possible that the total amount of previously unrecognized tax benefits may decrease by approximately $4 million to $5 million within twelve months of July 31, 2007.

We file a consolidated federal tax return in the United States and income tax returns in various state and foreign jurisdictions. We are no longer subject to U.S. federal income tax audits for years before 1999. The U.S. federal audit for years 1999 through 2003 is in its final stages. The Internal Revenue Service has commenced an audit for the years 2004 and 2005. With respect to our Canadian operations, audits for tax years 1996 through 2001 have been completed and are in the final stages. Tax years 2002 and 2003 are currently under audit. With respect to state and local jurisdictions, with limited exceptions, H&R Block, Inc. and its subsidiaries are no longer subject to income tax audits for years before 1999.

6. Regulatory Requirements

Registered Broker-Dealer

H&R Block Financial Advisors, Inc. (HRBFA) is subject to regulatory requirements intended to ensure the general financial soundness and liquidity of broker-dealers. At July 31, 2007, HRBFA's net capital of $127.9 million, which was 28.1% of aggregate debit items, exceeded its minimum required net capital of $9.1 million by $118.8 million.

Pledged securities at July 31, 2007 totaled $61.7 million, an excess of $7.0 million over the margin requirement.

Banking

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

Quantitative measures established by regulation to ensure capital adequacy require HRB Bank to maintain minimum amounts and ratios of tangible equity, total risk-based capital and Tier 1 capital, as set forth in the table below. In addition to these minimum ratio requirements, HRB Bank is required to continually maintain a 12.0% minimum leverage ratio as a condition of its charter-approval order through fiscal year 2009. This condition was extended through fiscal year 2012 as a result of a Supervisory Directive issued on May 29, 2007. See further discussion of the Supervisory Directive below. As of July 31, 2007, HRB Bank's leverage ratio was 13.2%.

As of June 30, 2007, our most recent TFR filing with the Office of Thrift Supervision (OTS), HRB Bank was a "well capitalized" institution under the prompt corrective action provisions of the Federal Deposit Insurance Corporation (FDIC). The five capital categories are: (1) "well capitalized" (total risk-based capital ratio of 10%, Tier 1 Risk-based capital ratio of 6% and leverage ratio of 5%); (2) "adequately capitalized"; (3) "undercapitalized"; (4) "significantly undercapitalized"; and (5) "critically undercapitalized." There are no conditions or events since June 30, 2007 that management believes have changed HRB Bank's category.

The following table sets forth HRB Bank's regulatory capital requirements at June 30, 2007, as calculated in the most recently filed TFR:

(dollars in 000s)

	Actual		For Capital Adequacy Under Purposes		To Be Well Capitalized Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total risk-based capital ratio (1)	$181,237	23.9%	$ 60,628	8.0%	$75,786	10.0%
Tier 1 risk-based capital ratio (2)	$176,003	23.2%	n/a	n/a	$45,471	6.0%
Tier 1 capital ratio (leverage) (3)	$176,003	12.3%	$171,179	12.0%	$71,325	5.0%
Tangible equity ratio (4)	$176,003	12.3%	$ 21,397	1.5%	n/a	n/a

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

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

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

(4) Tangible capital divided by tangible assets.

In conjunction with H&R Block, Inc.'s application with the OTS for HRB Bank, we made commitments as part of our charter approval order (Master Commitment) which included, but were not limited to: (1) a three percent minimum ratio of adjusted tangible capital to adjusted total assets, as defined by the OTS; (2) maintain all HRB Bank capital within HRB Bank in accordance with the submitted three-year business plan; and (3) follow federal regulations surrounding intercompany transactions and approvals. We fell below the three percent minimum ratio at April 30, 2007. We notified the OTS of our failure to meet this requirement, and on May 29, 2007, the OTS issued a Supervisory Directive. We submitted a revised capital plan to the OTS on July 19, 2007, that projects we will regain compliance with the three percent minimum capital requirement by April 30,

2008. The revised capital plan contemplates that we will meet the minimum capital requirement primarily through earnings generated by our normal business operations in fiscal year 2008. The OTS has accepted our revised capital plan. We also fell below the three percent minimum ratio during our first quarter, and had adjusted tangible capital of negative $177.6 million, and a requirement of $168.3 million to be in compliance at July 31, 2007. Normal seasonal operating losses of our Tax and Business Services segments, and operating losses of our discontinued mortgage businesses, are also expected to cause us to be in non-compliance until the end of fiscal year 2008.

The Supervisory Directive included additional conditions that we will be required to meet in addition to the Master Commitment. The significant additional conditions included in the Supervisory Directive are as follows: (1) requires HRB Bank to extend its compliance with a minimum 12.0% leverage ratio through fiscal year 2012; (2) requires H&R Block, Inc. to comply with the Master Commitment at all times, except for the projected capital levels and compliance with the three percent minimum ratio, as provided in the fiscal year 2008 and 2009 capital adequacy projections presented to the OTS on July 19, 2007; (3) institutes reporting requirements to the OTS quarterly and monthly by the Board of Directors and management, respectively; and (4) requires HRB Bank's Board of Directors to have an independent chairperson and at least the same number of outside directors as inside directors.

We have maintained compliance with the Supervisory Directive in fiscal year 2008. However, operating losses of our discontinued operations for the first quarter of fiscal year 2008 were higher than projected in our revised capital plan that was submitted to the OTS. As a result, our capital levels are lower than those projections. Based on our current operating plan, we still expect to be in compliance by April 30, 2008, the original date projected in the capital plan. In order to meet the three percent minimum ratio at April 30, 2008, we do not expect to be in a position to repurchase treasury shares until fiscal year 2009. If we are not in a position to cure deficiencies, and if operating results are below our plan, a resulting failure could impair our ability to repurchase shares of our common stock, acquire businesses or pay dividends.

Achievement of the capital plan depends on future events and circumstances, the outcome of which cannot be assured. Failure to meet the conditions under the Master Commitment and the Supervisory Directive, including capital levels of H&R Block, Inc. and completion of a planned sale of OOMC by October 31, 2007, could result in the OTS taking further regulatory actions, such as a supervisory agreement, cease-and-desist orders and civil monetary penalties. It is possible that the sale of OOMC may not be completed by October 31, 2007. At this time, the financial impact, if any, of additional regulatory actions cannot be determined.

7. Commitments and Contingencies

Changes in the deferred revenue liability related to our Peace of Mind (POM) program are as follows:

Three months ended July 31,	2007	(in 000s) 2006
Balance, beginning of period	$ 142,173	$ 141,684
Amounts deferred for new guarantees issued	470	511
Revenue recognized on previous deferrals	(27,237)	(28,738)
Balance, end of period	$ 115,406	$ 113,457

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

As of	July 31, 2007	(in 000s) April 30, 2007
Commitment to fund Franchise Equity Lines of Credit	$79,424	$79,628
Media advertising purchase obligation	37,749	37,749
Contingent business acquisition obligations	19,691	19,891

On November 1, 2006 we entered into an agreement to purchase $57.2 million in media advertising between November 1, 2006 and June 30, 2009. We expect to make payments totaling $20.6 million and $17.2 million during fiscal years 2008 and 2009, respectively.

We routinely enter into contracts that include embedded indemnifications that have characteristics similar to guarantees, including obligations to protect counterparties from losses

arising from the following: (a) tax, legal and other risks related to the purchase or disposition of businesses; (b) penalties and interest assessed by Federal and state taxing authorities in connection with tax returns prepared for clients; (c) indemnification of our directors and officers; and (d) third-party claims relating to various arrangements in the normal course of business. Typically, there is no stated maximum payment related to these indemnifications, and the term of indemnities may vary and in many cases is limited only by the applicable statute of limitations. The likelihood of any claims being asserted against us and the ultimate liability related to any such claims, if any, is difficult to predict. While we cannot provide assurance that such claims will not be successfully asserted, we believe the fair value of these guarantees and indemnifications is not material as of July 31, 2007.

8. Litigation and Related Contingencies

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

The amounts claimed in the RAL Cases have been very substantial in some instances. We have successfully defended against numerous RAL Cases, some of which were dismissed on our motions for dismissal or summary judgment, and others were dismissed voluntarily by the plaintiffs after denial of class certification. Other cases have been settled, with one settlement resulting in a pretax expense of $43.5 million in fiscal year 2003 (the "Texas RAL Settlement") and other settlements resulting in a combined pretax expense in fiscal year 2006 of $70.2 million (the "2006 Settlements").

We believe we have meritorious defenses to the remaining RAL Cases and we intend to defend them vigorously. There can be no assurances, however, as to the outcome of the pending RAL Cases individually or in the aggregate. Likewise, there can be no assurances regarding the impact of the RAL Cases on our financial statements. The following is updated information regarding the pending RAL Cases that are attorney general actions or class actions or putative class actions for which there have been significant developments during the fiscal quarter ended July 31, 2007:

Lynne A. Carnegie, et al. v. Household International, Inc., H&R Block, Inc., et al., (formerly Joel E. Zawikowski, et al. v. Beneficial National Bank, H&R Block, Inc., Block Financial Corporation, et al.) Case No. 98 C 2178, United States District Court for the Northern District of Illinois, Eastern Division, instituted on April 18, 1998. This case is one of the cases in the 2006 Settlements. On April 19, 2006, we entered into a settlement agreement regarding this case, subject to final court approval. The settlement was approved by the court on August 28, 2006. The settlement is now final.

Sandra J. Basile, et al. v. H&R Block, Inc., et al, April Term 1992 Civil Action No. 3246 in the Court of Common Pleas, First Judicial District Court of Pennsylvania, Philadelphia County, instituted on April 23, 1993. The court decertified the class on December 31, 2003. The Pennsylvania appellate court subsequently reversed the trial court's decertification decision. On September 26, 2006, the Pennsylvania Supreme Court reversed the appellate court's reversal of the trial court's decision to decertify the class. On June 4, 2007, the appellate court affirmed its earlier decision. The Company is currently seeking review of the appellate court's decision by the Pennsylvania Supreme Court.

Lorie J. Marshall, et al. v. H&R Block Tax Services, Inc., et al., Civil Action 2003L000004, in the Circuit Court of Madison County, Illinois, is a class action case filed on January 18, 2002, that was granted class certification on August 27, 2003. Plaintiffs' claims consist of five counts relating to the POM program under which the applicable tax return preparation subsidiary assumes liability for additional tax assessments attributable to tax return preparation error. The plaintiffs allege that the sale of POM guarantees constitutes (i) statutory fraud by selling insurance without a license, (ii) an unfair trade practice, by omission and by "cramming" (i.e., charging customers for the guarantee even though they did not request it or want it), and (iii) a breach of fiduciary duty. In August 2003, the court certified the plaintiff classes consisting of all persons who from January 1, 1997 to final judgment (i) were charged a separate fee for POM by "H&R Block" or a defendant H&R Block class member; (ii) reside in certain class states and were charged a separate fee for POM by "H&R Block" or a defendant H&R Block class member not licensed to sell insurance; and (iii) had an unsolicited charge for POM posted to their bills by "H&R Block" or a defendant H&R Block class member. Persons who received the POM guarantee through an H&R Block Premium office and persons who reside in Alabama are excluded from the plaintiff class. The court also certified a defendant class consisting of any entity with names that include "H&R Block" or "HRB," or are otherwise affiliated

or associated with H&R Block Tax Services, Inc., and that sold or sells the POM product. The trial court subsequently denied the defendants' motion to certify class certification issues for interlocutory appeal. Discovery is proceeding. No trial date has been set.

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

We believe the claims in the POM actions are without merit, and we intend to defend them vigorously. The amounts claimed in the POM actions are substantial, however, and there can be no assurances as to the outcome of these pending actions individually or in the aggregate. Likewise, there can be no assurances regarding the impact of these actions on our consolidated financial statements.

On March 15, 2006, the New York Attorney General filed a lawsuit in the Supreme Court of the State of New York, County of New York (Index No. 06/401110) entitled *The People of New York v. H&R Block, Inc. and H&R Block Financial Advisors, Inc*. The complaint alleged fraudulent business practices, deceptive acts and practices, common law fraud and breach of fiduciary duty with respect to the Express IRA product and sought equitable relief, disgorgement of profits, damages and restitution, civil penalties and punitive damages. On July 12, 2007, the Supreme Court of the State of New York issued a ruling that dismissed all defendants other than H&R Block Financial Advisors, Inc. and the claims of common law fraud. We intend to defend this case vigorously, but there are no assurances as to its outcome.

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

On April 6, 2007, a putative class action styled *In re H&R Block Securities Litigation* was filed against the Company and certain of its officers in the United States District Court for the Western District of Missouri. The complaint alleges, among other things, deceptive, material and misleading financial statements, failure to prepare financial statements in accordance with generally accepted accounting principles and concealment of the potential for lawsuits stemming from the allegedly fraudulent nature of the Company's operations. The complaint seeks unspecified damages and equitable relief. We intend to defend this litigation vigorously, but there are no assurances as to its outcome.

As reported previously, the NASD brought charges against HRBFA regarding the sale by HRBFA of Enron debentures in 2001. A hearing for this matter was concluded in August 2007, with post-hearing briefs to be submitted in October 2007. We intend to defend the NASD charges vigorously, although there can be no assurances regarding the outcome and resolution of the matter.

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

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

damages, restitution and equitable relief. There can be no assurance regarding the outcome and resolution of this matter.

We have from time to time been party to investigations, claims and lawsuits not discussed herein arising out of our business operations. These investigations, claims and lawsuits include actions by state attorneys general, other state regulators, individual plaintiffs, and cases in which plaintiffs seek to represent a class of similarly situated customers. The amounts claimed in these claims and lawsuits are substantial in some instances, and the ultimate liability with respect to such litigation and claims is difficult to predict. Some of these investigations, claims and lawsuits pertain to RALs, the origination and servicing of mortgage loans, the electronic filing of customers' income tax returns, the POM guarantee program, and our Express IRA program and other investment products and RSM EquiCo, Inc. business valuation services. We believe we have meritorious defenses to each of these claims, and we are defending or intend to defend them vigorously, although there is no assurance as to their outcome. In the event of an unfavorable outcome, the amounts we may be required to pay in the discharge of liabilities or settlements could have a material adverse effect on our consolidated financial statements.

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

9. Segment Information

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

Three months ended July 31,	2007	(in 000s) 2006
Revenues:		
Tax Services	$ 69,863	$ 65,658
Business Services	192,823	195,457
Consumer Financial Services	114,372	78,829
Corporate	4,151	2,826
	$ 381,209	$ 342,770
Pretax income (loss):		
Tax Services	$(172,289)	$(153,054)
Business Services	(1,906)	(6,967)
Consumer Financial Services	6,206	(3,069)
Corporate	(15,591)	(30,884)
Loss from continuing operations before tax benefit	$(183,580)	$(193,974)

As of July 31, 2007, we continued to meet the criteria requiring us to present the related financial results of OOMC, HRBMC and other smaller lines of business as discontinued operations and the assets and liabilities of the businesses being sold as held-for-sale in the condensed consolidated financial statements. All periods presented have been reclassified to reflect our discontinued operations. See note 11 for additional information.

10. New Accounting Pronouncements

In February 2007, Statement of Financial Accounting Standards No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities — Including an Amendment of FASB Statement No. 115," (SFAS 159), was issued. This standard allows a company to irrevocably elect fair value as the initial and subsequent measurement attribute for certain financial assets and financial liabilities on a

contract-by-contract basis, with changes in fair value recognized in earnings. The provisions of this standard are effective as of the beginning of our fiscal year 2009. We are currently evaluating what effect the adoption of SFAS 159 will have on our consolidated financial statements.

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

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

In March 2006, Statement of Financial Accounting Standards No. 156, "Accounting for Servicing of Financial Assets – An Amendment of FASB Statement No. 140," (SFAS 156), was issued. The provisions of this standard require mortgage servicing rights to be initially valued at fair value. SFAS 156 allows servicers to choose to subsequently measure their servicing rights at fair value or to continue using the "amortization method" under SFAS 140. We adopted SFAS 156 on May 1, 2007. Upon adoption we identified mortgage servicing rights (MSRs) relating to all existing residential mortgage loans as a class of servicing rights and elected to continue to use the "amortization method" for these MSRs. Presently, this class represents all of our MSRs. See note 11 for additional information on our MSRs. The adoption of SFAS 156 did not have a material impact on our condensed consolidated financial statements.

In February 2006, Statement of Financial Accounting Standards No. 155, "Accounting for Certain Hybrid Instruments – An Amendment of FASB Statements No. 133 and 140" (SFAS 155), was issued. The provisions of this standard establish a requirement to evaluate all newly acquired interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation. The standard permits a hybrid financial instrument required to be bifurcated to be accounted for in its entirety if the holder irrevocably elects to measure the hybrid financial instrument at fair value, with changes in fair value recognized currently in earnings. We adopted SFAS 155 on May 1, 2007. Our residual interests typically have interests in derivative instruments embedded within the securitization trusts, which were previously excluded from evaluation. Concurrent with the adoption of SFAS 155, we elected to account for all newly-acquired residual interests on a fair value basis as trading securities, with changes in fair value recorded in earnings in the period in which the change occurs. Prior to adoption, we accounted for our residual interests as AFS securities with unrealized gains recorded in other comprehensive income. For residual interests recorded prior to the adoption of SFAS 155, we continue to record unrealized gains as a component of other comprehensive income. The adoption of SFAS 155 did not have a material impact on our condensed consolidated financial statements.

As discussed in note 5, we adopted the provisions of FIN 48 effective May 1, 2007.

11. Discontinued Operations

On April 19, 2007, we entered into an agreement to sell OOMC to Cerberus Capital Management for cash consideration approximately equal to the fair value of the adjusted tangible net assets of OOMC, as defined in the agreement, at closing less $300.0 million. The agreement provides for H&R Block, Inc. to receive one-half of OOMC's net income from its origination business for the 18 months

following the closing, up to a maximum of $300.0 million, but no less than zero. The agreement is subject to various closing conditions and may be terminated by either party if the transaction does not close by December 31, 2007. These closing conditions include, among other matters: (1) maintenance of at least $8.0 billion of warehouse lines; (2) existence of at least $2.0 billion of loans in the warehouse facilities at the date of closing, all originated within the prior 60 days; (3) the lack of any material adverse events or conditions; (4) OOMC have servicer ratings of at least RPS2 by Fitch, SQ2 by Moody's and Above Average by S&P; (5) agreed upon regulatory and other approvals and consents be obtained; and (6) we provide audited financial statements of OOMC for the year ended April 30, 2007 by July 31, 2007, with the lack of a going concern explanatory paragraph related to OOMC, except to the extent necessary as a result of specified permitted conditions. We are currently not in compliance with certain closing conditions required by this agreement and do not believe we will be able to regain compliance with such closing conditions or maintain compliance through the anticipated closing date. See additional discussion of recent developments in note 1. In conjunction with this plan, we also announced we would terminate the operations of HRBMC, a wholly-owned subsidiary of OOMC.

During fiscal year 2007, we also committed to a plan to sell two smaller lines of business and completed the wind-down of one other line of business, all of which were previously reported in our Business Services segment. One of these businesses was sold during the three months ended July 31, 2007. Additionally, during fiscal year 2007, we completed the wind-down of our tax operations in the United Kingdom, which were previously reported in Tax Services. As of July 31, 2007, we continued to meet the criteria requiring us to present the related financial results of these businesses as discontinued operations and the assets and liabilities of the businesses being sold as held-for-sale and in the condensed consolidated financial statements. All periods presented have been reclassified to reflect our discontinued operations.

Financial Statement Presentation

We recorded impairments relating to the disposition of our mortgage business during the three months ended July 31, 2007 of $21.7 million. These amounts primarily relate to the value of fixed assets included in assets held-for-sale. We also recorded impairments relating to other discontinued businesses of $1.5 million during the current quarter. Additionally, during fiscal year 2007 we recorded impairments relating to the disposition of our mortgage businesses of $345.8 million, including the full impairment of associated goodwill equal to $152.5 million. Overhead costs previously allocated to discontinued businesses, which totaled $1.3 million and $3.0 million for the three months ended July 31, 2007 and 2006, respectively, are now included in continuing operations.

The major classes of assets and liabilities reported as held-for-sale are as follows:

	July 31, 2007	(in 000s) April 30, 2007
Cash and cash equivalents	$ 25,702	$ 65,019
Cash and cash equivalents – restricted	15,002	43,754
Residual interests in securitizations – trading	27,601	72,691
Mortgage loans held for sale	432,173	222,810
Deferred tax assets, net – current	53,761	53,761
Servicing and related assets	510,157	445,354
Prepaid expenses and other current assets, net	46,031	121,078
Current assets held for sale	$ 1,110,427	$ 1,024,467
Beneficial interest in Trusts	$ 54,450	$ 41,057
Residual interests in securitizations – AFS	62,714	90,283
Mortgage servicing rights	232,714	253,067
Deferred tax assets, net – noncurrent	263,762	245,798
Other assets	88,165	92,287
Noncurrent assets held for sale	$ 701,805	$ 722,492
Accounts payable, accrued expenses and deposits	$ 493,165	$ 370,226
Other liabilities	257,617	245,147
Current liabilities directly associated with assets held for sale	$ 750,782	$ 615,373

The financial results of discontinued operations are as follows:

Three months ended July 31,	2007	(in 000s) 2006
Revenue:		
Gains (losses) on sales of mortgage assets, net	$ (242,015)	$ 64,606
Interest income	15,099	15,300
Loan servicing revenue	97,399	108,924
Other	6,127	9,872
	(123,390)	198,702

Three months ended July 31,	2007	(in 000s) 2006
Loss from operations before income tax benefit	(312,168)	(24,685)
Impairment related to the disposition of businesses	(23,229)	—
Pretax loss	(335,397)	(24,685)
Income tax benefit	(142,640)	(11,147)
Net loss from discontinued operations	$ (192,757)	$ (13,538)

Mortgage Banking Activities

We originate mortgage loans and sell most non-prime loans the same day the loans are funded to qualifying special purpose entities (QSPEs or Trusts). The Trusts are not consolidated. The sale is recorded in accordance with Statement of Financial Accounting Standards No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" (SFAS 140). The Trusts purchase the loans from us using seven warehouse facilities. As a result of the loan sales to the Trusts, we remove the mortgage loans from our balance sheet and record the gain or loss on the sale, cash proceeds, MSRs, repurchase reserves and a beneficial interest in Trusts, which represents our residual interest in the ultimate expected outcome from the disposition of the loans by the Trusts. The total principal amount of mortgage loans held by the Trusts as of July 31, 2007 and April 30, 2007 was $2.1 billion and $1.5 billion, respectively. The beneficial interest in Trusts was $54.5 million and $41.1 million at July 31, 2007 and April 30, 2007, respectively.

The Trusts, in response to the exercise of a put option by the third-party beneficial interest holders, either sell the loans directly to third-party investors or back to us to pool the loans for securitization. The decision of the beneficial interest holders to complete a loan sale or a securitization is dependent on market conditions. If the Trusts execute loan sales, we receive cash for our beneficial interest in Trusts. In a securitization transaction, the Trusts transfer the loans to one of our consolidated bankruptcy remote subsidiaries, and we transfer our beneficial interest in Trusts and the loans to a securitization trust. The securitization trust meets the definition of a QSPE and is therefore not consolidated. The securitization trust issues bonds, which are supported by the cash flows from the pooled loans, to third-party investors. We retain an interest in the loans in the form of a trading residual interest and usually assume the first risk of loss for credit losses in the loan pool. As the cash flows of the underlying loans and market conditions change, the value of these residual interests may also change, resulting in either additional gains or impairment of the value of the residual interests. These residual interests are classified as trading securities along with any newly-acquired residual interests from NIM transactions beginning May 1, 2007. We held $27.6 million of trading residual interests as of July 31, 2007 and $72.7 million as of April 30, 2007.

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

		(in 000s)
Three months ended July 31,	2007	2006
Balance, beginning of period	$ 72,691	$ —
Additions (resulting from securitization of mortgage loans)	42,458	63,424
Cash received	—	(4,546)
Accretion	—	909
Change in fair value	(674)	(461)
	114,475	59,326
Residuals securitized in NIM transactions	(114,475)	—
Additions (resulting from NIM transactions)	41,705	—
Accretion	2,651	—
Change in fair value	(16,755)	—
Balance, end of period	$ 27,601	$ 59,326

We adopted SFAS 155 on May 1, 2007 and concurrently elected to account for all newly-acquired residual interests on a fair value basis, with changes in fair value recorded in earnings in the period in which the change occurs. Residual interests existing prior to the adoption of SFAS 155 will continue to be accounted for with unrealized gains recorded in other comprehensive income.

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

		(in 000s)
Three months ended July 31,	2007	2006
Balance, beginning of period	$ 90,283	$ 159,058
Cash received	(487)	(4,567)
Accretion	6,283	12,600
Impairments of fair value	(32,849)	(17,266)
Change in unrealized holding gains arising during the period	(516)	(4,046)
Balance, end of period	$ 62,714	$ 145,779

Cash flows from AFS residual interests of $0.5 million and $4.6 million were received from the securitization trusts for the three months ended July 31, 2007 and 2006, respectively, and are included in investing activities of discontinued operations in the condensed consolidated statements of cash flows.

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

Three months ended July 31,	2007	2006
		(in 000s)
Residual interest mark-to-market	$ (383)	$ 531

For residual interests recorded prior to the adoption of SFAS 155, aggregate unrealized gains on AFS residual interests not yet recognized in income totaled $0.8 million at July 31, 2007, compared to $1.3 million at April 30, 2007. These unrealized gains are recorded net of deferred taxes in other comprehensive income, and recognized in income either through accretion or upon further securitization or sale of the related residual interest. See additional discussion of our adoption of SFAS 155 in note 10.

Activity related to MSRs, which are initially measured at fair value and subsequently amortized and assessed for impairment, consists of the following:

Three months ended July 31,	2007	2006
		(in 000s)
Balance, beginning of period	$ 253,067	$ 272,472
Additions	23,290	50,122
Amortization	(43,625)	(47,328)
Impairment of fair value	(18)	—
Balance, end of period	$ 232,714	$ 275,266

Estimated amortization of MSRs for fiscal years 2008 through 2012 is $98.8 million, $73.6 million, $34.2 million, $14.1 million and $5.5 million, respectively. The fair value of MSRs at July 31, 2007 and April 30, 2007 was $354.8 million and $397.5 million, respectively.

In conjunction with our adoption of SFAS 156, we identified all of our residential mortgage loans as a class of servicing rights and elected to continue the amortization method. See additional discussion of our adoption of SFAS 156 in note 10. Servicing fees earned during the three months ended July 31, 2007 and 2006 totaled $98.9 million and $102.6 million, respectively, and are included in discontinued operations on our condensed consolidated income statements.

As part of our loan servicing responsibilities, we are required to advance funds to cover delinquent scheduled principal and interest payments to security holders, as well as to cover delinquent tax and insurance payments and other costs required to protect the investors' interest in the collateral securing the loans. Generally, servicing advances are recoverable from either the mortgagor, the insurer of the loan or the investor through the non-recourse provision of the loan servicing contract.

The key weighted average assumptions we used to estimate the cash flows and values of the residual interests initially recorded during the three months ended July 31, 2007 and 2006 are as follows:

Three months ended July 31,	2007	2006
Estimated credit losses	6.36%	3.51%
Discount rate	28.00%	18.00%
Variable returns to third-party beneficial interest holders	LIBOR forward curve at closing date	

The key weighted average assumptions we used to estimate the cash flows and values of the residual interests and MSRs at July 31, 2007 and April 30, 2007 are as follows:

	July 31, 2007	April 30, 2007
Estimated credit losses – residual interests	5.13%	5.04%
Discount rate – residual interests	47.00%	24.82%
Discount rate – MSRs	20.00%	20.00%
Variable returns to third-party beneficial interest holders	LIBOR forward curve at valuation date	

Estimated credit losses in the table above include residual interests from all fiscal years with outstanding underlying loan balances using unpaid principal balances as part of the weighted average calculation. See credit losses table below for detailed information by fiscal year.

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

	Prior to Initial Rate Reset Date	Months Outstanding After Initial Rate Reset Date	
		Zero - 3	Remaining Life
Adjustable rate mortgage loans:			
With prepayment penalties	27%	70%	28%
Without prepayment penalties	36%	51%	24%
Fixed rate mortgage loans:			
With prepayment penalties	25%	40%	22%

For fixed-rate mortgages without prepayment penalties, we use an average prepayment rate of 20% over the life of the loans. Prepayment rate is projected based on actual paydown including voluntary, involuntary and scheduled principal payments.

Expected static pool credit losses are as follows:

	Mortgage Loans Securitized in Fiscal Year						
	Prior to 2002	2003	2004	2005	2006	2007	2008
As of:							
July 31, 2007	5.11%	2.57%	3.45%	5.48%	6.79%	6.41%	6.36%
April 30, 2007	5.11%	2.57%	3.45%	5.48%	6.79%	6.41%	—
April 30, 2006	4.22%	2.13%	2.18%	2.48%	3.05%	—	—
April 30, 2005	4.01%	2.08%	2.30%	2.83%	—	—	—

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

At July 31, 2007, the sensitivities of the current fair value of the residual interests and MSRs to 10% and 20% adverse changes in the above key assumptions are as presented in the following table. These sensitivities are hypothetical and should be used with caution. As the figures indicate, changes in fair value based on a 10% variation in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also in this table, the effect of a variation of a particular assumption on the fair value of the retained interest is calculated without changing any other assumptions; in reality, changes in one factor may result in changes in another, which might magnify or counteract the sensitivities.

(dollars in 000s)

	Residential Mortgage Loans		
	Residuals	Beneficial Interest in Trusts	MSRs
Carrying amount/fair value	$ 90,315	$ 54,450	$ 232,714
Weighted average remaining life (in years)	5.9	2.5	1.4
Dollar impact on fair value:			
Prepayments (including defaults):			
Adverse 10%	$ (4,569)	$ 364	$ (18,790)
Adverse 20%	(1,286)	704	(35,717)
Credit losses:			
Adverse 10%	$ (23,639)	$ (2,007)	Not applicable
Adverse 20%	(42,053)	(3,978)	Not applicable
Discount rate:			
Adverse 10%	$ (8,623)	$ (1,229)	$ (7,917)
Adverse 20%	(16,018)	(2,413)	(15,338)
Variable interest rates:			
Adverse 10%	$ 2,512	$ (12,455)	Not applicable
Adverse 20%	4,882	(24,973)	Not applicable

Increases in prepayment rates can generate a positive impact to fair value when reductions in estimated credit losses and increases in prepayment penalties exceed the adverse impact to accretion from accelerating the life of the residual interest. Given the current market volatility, the change in credit losses or discount rate could exceed the ranges in the table above and result in little or no value to the residual interests.

Mortgage loans that have been securitized and mortgage loans held for sale at July 31, 2007 and April 30, 2007, past due sixty days or more and the related credit losses incurred are presented below:

(in 000s)

	Total Principal Amount of Loans Outstanding		Principal Amount of Loans 60 Days or More Past Due		Credit Losses (net of recoveries)	
	July 31, 2007	April 30, 2007	July 31, 2007	April 30, 2007	Three months ended July 31, 2007	Three months ended April 30, 2007
Securitized mortgage loans	$20,616,376	$18,434,940	$1,957,164	$1,383,832	$ 49,059	$ 41,235
Mortgage loans in warehouse Trusts	2,062,295	1,456,078	—	—	—	—
Mortgage loans held for sale	547,287	295,208	435,254	202,941	80,825	104,972
Total loans	$23,225,958	$20,186,226	$2,392,418	$1,586,773	$ 129,884	$ 146,207

The significant increase in non-prime delinquencies and defaults, combined with declining residential real estate prices, has created substantial uncertainty among marketplace participants regarding the ultimate credit losses expected to be realized on securitized loans. We previously considered these factors in estimating our credit losses and our analysis of loss data for the three months ended July 31, 2007 did not indicate that we should increase our credit loss assumption. However, declining prices in the marketplace reflected the increasing levels of uncertainty. Because of the difficulty in discerning whether marketplace participants actually expect higher credit losses, demand a higher risk premium, or both, we elected to reflect the increased risk perceived by marketplace participants by substantially increasing the discount rate used in our residual valuations to 47%, rather than by increasing the credit loss assumption. We believe that the increase in the discount rate results in residual values that are reflective of current market prices.

Derivative Instruments

A summary of our derivative instruments as of July 31, 2007 and April 30, 2007, and gains or losses incurred during the three months ended July 31, 2007 and 2006 is as follows:

(in 000s)

	Asset (Liability) Balance at July 31, 2007	Asset (Liability) Balance at April 30, 2007	Gain (Loss) for the Three Months Ended July 31, 2007	Gain (Loss) for the Three Months Ended July 31, 2006
Rate-lock equivalents	$ (8,488)	$ (987)	$ (7,501)	$ 7,745
Interest rate swaps	(5,206)	10,774	2,648	13,179
Put options on Eurodollar futures	—	1,212	942	(38)
Prime short sales	(107)	75	98	(561)
Forward loan sale commitments	26,072	—	26,072	(7,082)
	$ 12,271	$ 11,074	$ 22,259	$ 13,243

The gain on our forward loan sale commitments offsets a related loss on the impairment of our beneficial interest in Trusts.

The notional amount of interest rate swaps to which we were a party at July 31, 2007 and April 30, 2007 was $2.6 billion and $2.8 billion, respectively, with a weighted average duration at each date of two years. At July 31, 2007 the notional value and the contract values of our forward loan sale commitments were $628.1 million and $632.0 million, respectively. At April 30, 2007 we had no forward loan sale commitments.

None of our derivative instruments are designated for hedge accounting treatment as of July 31, 2007 or April 30, 2007.

Commitments and Contingencies

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

(in 000s)

As of	July 31, 2007	April 30, 2007
Commitment to fund mortgage loans	$1,745,843	$ 2,374,938
Commitment to sell mortgage loans	628,080	—

We have commitments to fund mortgage loans to customers as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses. External market forces impact the probability of commitments being exercised, and therefore, total commitments outstanding do not necessarily represent future cash requirements. Of the $1.7 billion of commitments to fund mortgage loans at July 31, 2007, all but $242.5 million were repriced to higher interest rates before funding in August 2007. We expect the majority of the repriced loans will not be funded.

In the normal course of business, we maintain recourse with standard representations and warranties customary to the mortgage banking industry. Violations of these representations and warranties, such as early payment defaults by borrowers, may require us to repurchase loans previously sold. Repurchased loans are normally sold in subsequent sale transactions. The following table summarizes our loan repurchase activity:

(dollars in 000s)

	Three months ended July 31,		Fiscal year ended
	2007	2006	April 30, 2007
Loans repurchased (1)	$193,640	$92,338	$989,992
Repurchase reserves added during period	$157,296	$92,737	$388,733
Repurchase reserves added as a percent of originations	4.79%	1.15%	1.44%

(1) Amounts include $96.8 million and $11.2 million in loans repurchased from HRB Bank for the three months ended July 31, 2007 and the year ended April 30, 2007, respectively. OOMC did not repurchase any loans from HRB Bank during the three months ended July 31, 2006.

A liability has been established related to the potential loss on repurchase of loans previously sold of $72.2 million and $38.4 million at July 31, 2007 and April 30, 2007, respectively. On an ongoing basis, we monitor the adequacy of our repurchase liability, which is established upon the initial sale of the loans, and is included in current liabilities held-for-sale in the condensed consolidated balance sheets. During the quarter ended July 31, 2007, we experienced higher early payment defaults, resulting in an increase in actual and expected loan repurchase activity. In establishing our reserves, we've assumed all loans that are currently delinquent and subject to contractual repurchase terms will be repurchased, and that approximately 4% of loans previously sold but not yet subject to contractual repurchase terms will be repurchased. Based on historical experience, we assumed an average 38% loss severity at July 31, 2007, compared to 26% at April 30, 2007, on all loans repurchased and expected to be repurchased. The increase in our loan repurchase liability was primarily due to the increase in our loss severity assumption. At July 31, 2007, we had recorded repurchase reserves to cover estimated future losses from loan repurchase obligations on $178.9 million of outstanding loans.

OOMC has guaranteed up to a maximum amount equal to approximately 10% of the aggregate principal balance of mortgage loans held by the Trusts before ultimate disposition of the loans by the Trusts. This obligation can be called upon in the event adequate proceeds are not available from the sale of the mortgage loans to satisfy the current or ultimate payment obligations of the Trusts. We have not funded any amounts under this guarantee, however we have provided additional margin as the fair value of the loans has declined and subsequently written the beneficial interest in Trusts down to fair value. The total principal amount of Trust obligations outstanding as of July 31, 2007, April 30, 2007 and July 31, 2006 was $2.1 billion, $1.5 billion and $4.2 billion, respectively. The fair value of mortgage loans held by the Trusts as of July 31, 2007, April 30, 2007 and July 31, 2006 was $2.0 billion, $1.5 billion and $4.3 billion, respectively. At July 31, 2007 and April 30, 2007 we recorded liabilities of $15.0 million and $30,000, respectively, for the estimated fair value of this guarantee obligation, which are included in current liabilities held-for-sale in the condensed consolidated balance sheets. Under the warehouse agreements, we may be required to provide funds in the event of declining loan values, but only to the extent of the 10% guaranteed amount. Funds provided as a result of declining loan values at July 31, 2007 and 2006 totaled $173.0 million and $21.1 million, respectively. Of the amount provided as of July 31, 2007, $169.0 million relates to our off-balance sheet warehouse facilities and is included in the beneficial interest in Trusts while the remaining $4.0 million relates to our on-balance sheet facility. At July 31, 2006, all the funds provided were included in the beneficial interest in Trusts.

Warehouse Facilities

Substantially all non-prime mortgage loans we originate are sold daily to the Trusts. The Trusts purchase the loans from us using committed off-balance sheet warehouse facilities, arranged by us, totaling $7.5 billion in the aggregate. We also had an on-balance sheet facility with capacity of $500.0 million, as discussed below. These facilities are subject to various OOMC performance triggers, limits and financial covenants, including tangible net worth, income and leverage ratios and may be subject to margin calls. We hold an interest in the Trusts equal to the difference between the fair value of the assets and cash proceeds, adjusted for contractual advance rates, received from the Trusts. In addition to the margin call feature, loans sold to the Trust are subject to repurchase if certain criteria are not met, including loan default provisions. Unfavorable fluctuations in loan value are guaranteed up to 10% of the original fair value. As of July 31, 2007, additional uncommitted facilities of $2.0 billion were also potentially available, subject to counterparty approval.

One warehouse line was amended to remove a “minimum net income” financial covenant, which required OOMC to maintain a cumulative minimum net income of at least $1 for four consecutive fiscal quarters. As a result, OOMC now has $4.0 billion in committed warehouse facilities available, one without the minimum net income financial covenant and one with a waiver of the minimum net income financial covenant through at least April 25, 2008. At our projected origination levels, we estimate we would only need between $3.0 billion and $4.0 billion of available warehouse capacity at any given time. However, the sale of OOMC is subject to various closing conditions, including that OOMC maintain at least $8.0 billion of total capacity in its warehouse facilities throughout the period to the closing date, of which at least $2.0 billion is to be in the form of unused capacity at the closing date. At July 31, 2007, OOMC did not meet the minimum net income financial covenant contained in certain of its committed warehouse facilities. OOMC obtained waivers of the minimum net income financial covenants from warehouse facility providers as needed, to comply with the closing conditions of the sale of OOMC. These waivers extend through various dates as discussed below. If we do not obtain extensions of each facility and waiver that expires before completing the sale of OOMC, or replace existing capacity, we would be in violation of this closing condition.

Committed warehouse facilities and waivers, where applicable, of the minimum net income financial covenant obtained by OOMC expire as follows:

(dollars in 000s)

Facility Expiration Date	Waiver Expiration Date	Total Capacity	Outstanding Loans
October 2, 2007	October 2, 2007	$ 1,000,000	$ 402,068
October 2, 2007	September 30, 2007	500,000(1)	9,157
October 31, 2007	N/A (2)	250,000	217,388
November 9, 2007	September 30, 2007	1,000,000	277,987
January 15, 2008	January 15, 2008	500,000	314,979
January 18, 2008	October 30, 2007	750,000	95,775
April 25, 2008	April 25, 2008	2,000,000	332,922
June 12, 2008	N/A (2)	2,002,000	431,899
		$ 8,002,000	$ 2,082,175

(1) Represents $500.0 million related to an on-balance sheet facility, as discussed below.

(2) The agreement related to this facility has been amended to remove the minimum net income financial covenant through the facility expiration date.

During fiscal year 2007, we amended our warehouse facility with Citigroup Global Markets Realty Corp (Citigroup) to split OOMC’s existing warehouse financing arrangement with Citigroup into two separate warehouse facilities, one of which is an on-balance sheet facility with capacity of $500.0 million that may be used to fund delinquent and repurchased loans, and the other an off-balance sheet facility. Loans totaling $9.2 million were held on the on-balance sheet facility at July 31, 2007, with the related loans and liability reported in assets and liabilities held-for-sale. OOMC was not in compliance with certain restrictive covenants relative to this facility and obtained waivers through September 30, 2007.

Restructuring Charge

During fiscal year 2006, we initiated a restructuring plan to reduce costs within our mortgage operations. Restructuring activities continued during fiscal year 2007, and we expect this will continue until the sale or termination of our mortgage operations is complete. Charges incurred during the current quarter related to an additional restructuring plan announced on May 17, 2007,

totaled $16.1 million, and are included in “other adjustments” in the table below. During August 2007, we announced further reductions in staffing, which will be recorded during our second quarter and are estimated to total approximately $16 million to $20 million. Changes in our restructuring charge liability during the three months ended July 31, 2007 are as follows:

(in 000s)

	Accrual Balance as of April 30, 2007	Cash Payments	Other Adjustments	Accrual Balance as of July 31, 2007
Employee severance costs	$ 3,688	$ (9,792)	$ 13,424	$ 7,320
Contract termination costs	10,919	(1,169)	2,673	12,423
	$ 14,607	$ (10,961)	$ 16,097	$ 19,743

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

12. Condensed Consolidating Financial Statements

Block Financial Corporation (BFC) is an indirect, wholly owned consolidated subsidiary of the Company. BFC is the Issuer and the Company is the Guarantor of the $500.0 million credit facility entered into in April 2007 and the Senior Notes issued on October 26, 2004, the CLOCs and other indebtedness 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 stockholder's equity and other intercompany balances and transactions.

Condensed Consolidating Income Statements

(in 000s)

Three months ended July 31, 2007	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Elims	Consolidated H&R Block
Total revenues	$ —	$ 189,100	$ 194,355	$ (2,246)	$ 381,209
Cost of services	—	61,814	321,553	33	383,400
Cost of other revenues	—	37,637	5,892	—	43,529
Selling, general and administrative	—	47,184	100,535	(1,895)	145,824
Total expenses	—	146,635	427,980	(1,862)	572,753
Operating income (loss)	—	42,465	(233,625)	(384)	(191,544)
Interest expense	—	—	(595)	—	(595)
Other income, net	(183,580)	(5)	8,564	183,580	8,559
Income (loss) from continuing operations before tax (benefit)	(183,580)	42,460	(225,656)	183,196	(183,580)
Income tax (benefit)	(73,757)	14,622	(88,225)	73,603	(73,757)
Net income (loss) from continuing operations	(109,823)	27,838	(137,431)	109,593	(109,823)
Net loss from discontinued operations	(192,757)	(190,143)	(2,923)	193,066	(192,757)
Net loss	$ (302,580)	$ (162,305)	$ (140,354)	$ 302,659	$ (302,580)

Three months ended July 31, 2006	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Elims	Consolidated H&R Block
Total revenues	$ —	$ 135,703	$ 209,685	$ (2,618)	$ 342,770
Cost of services	—	47,110	316,383	32	363,525
Cost of other revenues	—	15,491	2,716	—	18,207
Selling, general and administrative	—	48,526	102,024	(1,479)	149,071
Total expenses	—	111,127	421,123	(1,447)	530,803
Operating income (loss)	—	24,576	(211,438)	(1,171)	(188,033)
Interest expense	—	(11,808)	(327)	—	(12,135)
Other income, net	(193,974)	2,770	3,424	193,974	6,194
Income (loss) from continuing operations before tax (benefit)	(193,974)	15,538	(208,341)	192,803	(193,974)
Income tax (benefit)	(76,135)	6,055	(81,732)	75,677	(76,135)
Net income (loss) from continuing operations	(117,839)	9,483	(126,609)	117,126	(117,839)
Net loss from discontinued operations	(13,538)	(10,371)	(3,880)	14,251	(13,538)
Net loss	$ (131,377)	$ (888)	$ (130,489)	$ 131,377	$ (131,377)

Condensed Consolidating Balance Sheets (in 000s)

July 31, 2007	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Elims	Consolidated H&R Block
Cash & cash equivalents	$ —	$ 144,152	$ 293,519	$ —	$ 437,671
Cash & cash equivalents – restricted	—	286,000	1,789	—	287,789
Receivables from customers, brokers and dealers, net	—	404,420	—	—	404,420
Receivables, net	76	137,432	285,942	—	423,450
Mortgage loans held for investment	—	1,241,281	—	—	1,241,281
Intangible assets and goodwill, net	—	188,711	991,366	—	1,180,077
Investments in subsidiaries	4,338,269	—	500	(4,338,269)	500
Assets held for sale	—	1,792,343	19,889	—	1,812,232
Other assets	—	125,014	955,630	6	1,080,650
Total assets	$ 4,338,345	$ 4,319,353	$ 2,548,635	$ (4,338,263)	$ 6,868,070
Commercial paper and other short-term borrowings	$ —	$ 1,651,237	$ —	$ —	$ 1,651,237
Accts. payable to customers, brokers and dealers	—	615,858	—	—	615,858
Customer deposits	—	1,039,238	—	—	1,039,238
Long-term debt	—	502,295	17,508	—	519,803
Liabilities held for sale	—	748,504	2,278	—	750,782
Other liabilities	2	234,576	975,190	22	1,209,790
Net intercompany advances	3,256,981	(1,426,182)	(1,830,799)	—	—
Stockholders' equity	1,081,362	953,827	3,384,458	(4,338,285)	1,081,362
Total liabilities and stockholders' equity	$ 4,338,345	$ 4,319,353	$ 2,548,635	$ (4,338,263)	$ 6,868,070

April 30, 2007	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Elims	Consolidated H&R Block
Cash & cash equivalents	$ —	$ 165,118	$ 756,720	$ —	$ 921,838
Cash & cash equivalents – restricted	—	329,000	3,646	—	332,646
Receivables from customers, brokers and dealers, net	—	410,522	—	—	410,522
Receivables, net	233	154,060	401,962	—	556,255
Mortgage loans held for investment	—	1,358,222	—	—	1,358,222
Intangible assets and goodwill, net	—	197,914	977,418	—	1,175,332
Investments in subsidiaries	4,586,474	—	414	(4,586,474)	414
Assets held for sale	—	1,720,984	25,975	—	1,746,959
Other assets	—	129,879	911,976	7	1,041,862
Total assets	$ 4,586,707	$ 4,465,699	$ 3,078,111	$ (4,586,467)	$ 7,544,050
Commercial paper and other short-term borrowings	$ —	$ 1,567,082	$ —	$ —	$ 1,567,082
Customer deposits	—	1,129,263	—	—	1,129,263
Accts. payable to customers, brokers and dealers	—	633,189	—	—	633,189
Long-term debt	—	502,236	17,571	—	519,807
Liabilities held for sale	—	610,391	4,982	—	615,373
Other liabilities	2	254,906	1,409,929	—	1,664,837
Net intercompany advances	3,172,206	(1,341,912)	(1,830,294)	—	—
Stockholders' equity	1,414,499	1,110,544	3,475,923	(4,586,467)	1,414,499
Total liabilities and stockholders' equity	$ 4,586,707	$ 4,465,699	$ 3,078,111	$ (4,586,467)	$ 7,544,050

Condensed Consolidating Statements of Cash Flows (in 000s)

Three months ended July 31, 2007	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Elims	Consolidated H&R Block
Net cash provided by (used in) operating activities:	$ 8,194	$ (107,033)	$ (333,344)	$ —	$ (432,183)
Cash flows from investing:					
Mortgage loans originated for investment, net	—	111,164	—	—	111,164
Purchase property & equipment	—	(5,124)	(9,373)	—	(14,497)
Payments for business acquisitions	—	—	(20,887)	—	(20,887)
Net intercompany advances	24,566	—	—	(24,566)	—
Investing cash flows from discontinued operations	—	(557)	3,625	—	3,068
Other, net	—	(295)	6,994	—	6,699
Net cash provided by (used in) investing activities	24,566	105,188	(19,641)	(24,566)	85,547
Cash flows from financing:					
Repayments of commercial paper	—	(3,463,719)	—	—	(3,463,719)
Proceeds from commercial paper	—	3,622,874	—	—	3,622,874
Repayments of short-term borrowings	—	(560,000)	—	—	(560,000)
Proceeds from short-term borrowings	—	485,000	—	—	485,000
Customer deposits	—	(90,378)	—	—	(90,378)
Dividends paid	(43,937)	—	—	—	(43,937)
Proceeds from issuance of common stock	9,788	—	—	—	9,788
Net intercompany advances	—	44,132	(68,698)	24,566	—
Financing cash flows from discontinued operations	—	(47,535)	—	—	(47,535)
Other, net	1,389	(9,495)	(41,518)	—	(49,624)
Net cash provided by (used in) financing activities	(32,760)	(19,121)	(110,216)	24,566	(137,531)
Net decrease in cash	—	(20,966)	(463,201)	—	(484,167)
Cash – beginning of period	—	165,118	756,720	—	921,838
Cash – end of period	$ —	$ 144,152	$ 293,519	$ —	$ 437,671

Three months ended July 31, 2006	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Elims	Consolidated H&R Block
Net cash provided by (used in) operating activities:	$ 16,281	$ 245,863	$ (738,203)	$ —	$ (476,059)
Cash flows from investing:					
Mortgage loans originated for investment, net	—	(135,161)	—	—	(135,161)
Purchase property & equipment	—	3,610	(37,968)	—	(34,358)
Payments for business acquisitions	—	—	(4,627)	—	(4,627)
Net intercompany advances	196,279	—	—	(196,279)	—
Investing cash flows from discontinued operations	—	(2,734)	(1,137)	—	(3,871)
Other, net	—	(5,222)	6,996	—	1,774
Net cash provided by (used in) investing activities	196,279	(139,507)	(36,736)	(196,279)	(176,243)
Cash flows from financing:					
Repayments of commercial paper	—	(1,034,210)	—	—	(1,034,210)
Proceeds from issuance of commercial paper	—	1,223,566	—	—	1,223,566
Dividends paid	(40,485)	—	—	—	(40,485)
Payments to acquire treasury shares	(180,897)	—	—	—	(180,897)
Proceeds from issuance of common stock	6,791	—	—	—	6,791
Net intercompany advances	—	(649,771)	453,492	196,279	—
Customer deposits	—	404,030	—	—	404,030
Financing cash flows from discontinued operations	—	—	(100)	—	(100)
Other, net	2,031	(9,808)	(45,772)	—	(53,549)
Net cash provided by (used in) financing activities	(212,560)	(66,193)	407,620	196,279	325,146
Net increase (decrease) in cash	—	40,163	(367,319)	—	(327,156)
Cash – beginning of period	—	134,407	539,420	—	673,827
Cash – end of period	$ —	$ 174,570	$ 172,101	$ —	$ 346,671

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

RESULTS OF OPERATIONS

H&R Block is a diversified company delivering tax services and financial advice, investment, and banking services, and business and consulting services. For more than 50 years, we have been developing relationships with millions of tax clients and our strategy is to expand on these relationships. Our Tax Services segment provides income tax return preparation services, electronic filing services and other services and products related to income tax return preparation to the general public primarily in the United States, Canada and Australia. RSM McGladrey Business Services, Inc. (RSM) is a national accounting, tax and business consulting firm primarily serving midsized businesses. Our Consumer Financial Services segment offers investment services through H&R Block Financial Advisors, Inc. (HRBFA) and full-service banking through H&R Block Bank (HRB Bank).

Our Mission
To help our clients achieve their financial objectives
by serving as their tax and financial partner.

Key to achieving our mission is the enhancement of client experiences through consistent delivery of valuable services and advice. Operating through multiple lines of business allows us to better meet the changing financial needs of our clients.

Discontinued Operations – Recent Developments. On April 19, 2007, we entered into an agreement to sell Option One Mortgage Corporation (OOMC). In conjunction with this plan, we also announced we would terminate the operations of H&R Block Mortgage Corporation (HRBMC), a wholly-owned subsidiary of OOMC. During fiscal year 2007, we also committed to a plan to sell two smaller lines of business and completed the wind-down of one other line of business, all of which were previously reported in our Business Services segment. One of these businesses was sold during the three months ended July 31, 2007. Additionally, during fiscal year 2007, we completed the wind-down of our tax operations in the United Kingdom, which were previously reported in Tax Services. As of July 31, 2007, we continued to meet the criteria requiring us to present the related financial results of these businesses as discontinued operations and the assets and liabilities of the business being sold as held-for-sale in the condensed consolidated financial statements. All periods presented have been reclassified to reflect our discontinued operations.

The non-prime residential mortgage loan market has been adversely affected by a weakening housing market and increasing rates of delinquencies and defaults. Warehouse lenders have required significant margin calls from non-prime residential mortgage loan originators, including OOMC, due to declining values of non-prime residential mortgage loans and increasing levels of loans held for sale by lenders for longer periods of time due to softening secondary market conditions.

We have been significantly and negatively impacted by the events and conditions impacting the broader non-prime residential mortgage loan market. The softening secondary market conditions expose us to margin calls to cover declining values in loans held for sale. In addition, warehouse lenders have discretion over the sale of loans in the secondary market, which may result in losses on sales due to forced sales in depressed market conditions. These exposures are also influenced by loans being held for longer periods of time.

The declining mortgage market conditions continued in August 2007 and were compounded by illiquidity in the secondary market. In early August 2007, OOMC began only underwriting loan originations to the standards established by Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac). These new underwriting guidelines should enhance the overall credit quality of loans offered for sale, but will significantly reduce origination volume. We expect our loan originations will slow to a rate of about $200 million per month beginning in September 2007. Reductions in loan origination volumes and an increasing frequency of selling loans without retaining servicing rights may adversely impact our loan servicing business. OOMC announced reductions in its mortgage lending workforce and retail facilities in August 2007. The cost of these restructuring activities is estimated at $16 million to $20 million, which will be primarily reflected in the consolidated income statement for the quarter ended October 31, 2007. It is possible that OOMC may need to commit to additional restructuring activities. If current market conditions fail to improve, we believe there could be further impairments to our residual interests, beneficial interests in Trusts, and loans held for sale in our second quarter, potentially in the range of $150 to $200 million pretax. The actual amount of the second quarter impairment will ultimately depend primarily on market conditions at the end of the second quarter.

While we have taken steps to respond to the rapid and substantial decline in the non-prime residential mortgage loan market, there can be no assurances that such steps will be adequate in the event the non-prime residential loan market experiences additional or sustained market declines. If conditions in the mortgage industry continue to decline, our future operating losses from discontinued operations would continue to be negatively impacted.

We continue to expect to complete the sale of OOMC pursuant to the April 2007 agreement by December 31, 2007. However, we are not currently in compliance with certain closing conditions required by this agreement and do not believe we will be able to regain compliance with such closing conditions or maintain compliance through the anticipated closing date. We are currently in discussions with Cerberus Capital Management to have such conditions either waived or modified. We are also conducting ongoing discussion regarding potentially modifying the agreement, which may include only selling the servicing platform, although we currently believe it is unlikely that the existing agreement will ultimately be changed. Therefore, it is our intention to consummate the transaction under the existing agreement on or before December 31, 2007. If the sale is not consummated, then we would divest the servicing platform and either divest or wind-down the origination business. There are no assurances that the current agreement will be modified or that the transaction will close. Our condensed consolidated financial statements as of July 31, 2007 include an impairment charge which reflects our best estimate of the valuation of OOMC based on the terms of the existing agreement. If the agreement is modified, we may incur additional impairment losses, which could be significant, beyond those that are provided in our financial statements. However, we are currently unable to estimate the amount of such additional impairment, if any, until the terms of a modified agreement are determined.

See discussion of additional risks in Part II, Item 1A.

TAX SERVICES

This segment primarily consists of our income tax preparation businesses – retail, online and software. Additionally, this segment includes the Commercial Tax Markets Group, which serves CPAs and other tax preparers by providing tax preparation software and educational materials.

Tax Services – Operating Results		(in 000s)
Three months ended July 31,	2007	2006
Service revenues:		
Tax preparation fees	$ 24,924	$ 25,325
Other services	37,349	35,012
	62,273	60,337
Royalties	2,842	2,923
Other	4,748	2,398
Total revenues	69,863	65,658
Cost of services:		
Compensation and benefits	46,140	45,583
Occupancy	74,960	67,580
Depreciation	8,160	9,251
Other	55,165	48,172
	184,425	170,586
Cost of other revenues, selling, general and administrative	57,727	48,126
Total expenses	242,152	218,712
Pretax loss	$(172,289)	$(153,054)

Three months ended July 31, 2007 compared to July 31, 2006

Tax Services' revenues increased $4.2 million, or 6.4%, for the three months ended July 31, 2007 compared to the prior year.

Other service revenues increased $2.3 million, or 6.7%, primarily due to customer fees earned in connection with an agreement with HRB Bank for the H&R Block Emerald Prepaid MasterCard® program, under which, this segment shares in the revenues and expenses associated with the program.

Other revenues increased $2.4 million, primarily due to additional revenues from our commercial tax markets group.

Total expenses increased $23.4 million, or 10.7%, for the three months ended July 31, 2007. Cost of services increased $13.8 million, or 8.1%, from the prior year, primarily due to higher occupancy expenses. Occupancy expenses increased $7.4 million, or 10.9%, primarily as a result of higher rent expenses due to a 4.1% increase in company-owned offices under lease and a 3.7% increase in the average rent. Other cost of services increased $7.0 million, or 14.5%, due to $6.2 million in additional corporate shared services, primarily related to information technology projects.

Cost of other revenues, selling, general and administrative expenses increased $9.6 million, or 19.9%, primarily due to an increase of $2.9 million in corporate wages. Amortization of intangible assets increased $1.7 million over the prior year, and we also experienced smaller increases in corporate shared services, marketing and other expenses.

The pretax loss for the three months ended July 31, 2007 was $172.3 million, compared to a loss of $153.1 million in the prior year.

BUSINESS SERVICES

This segment offers middle-market companies accounting, tax and consulting services, wealth management and corporate finance services.

Business Services — Operating Statistics

Three months ended July 31,	2007	2006
Accounting, tax and consulting:		
Chargeable hours	1,039,190	1,063,011
Chargeable hours per person	274	275
Net billed rate per hour	$ 144	$ 142
Average margin per person	$ 19,225	$ 19,937

Business Services – Operating Results (in 000s)

Three months ended July 31,	2007	2006
Service revenues:		
Accounting, tax and consulting	$ 162,815	$ 164,789
Capital markets	10,842	13,660
Other services	7,745	7,778
	181,402	186,227
Other	11,421	9,230
Total revenues	192,823	195,457
Cost of services:		
Compensation and benefits	109,852	114,778
Occupancy	17,862	17,203
Other	18,420	17,931
	146,134	149,912
Amortization of intangible assets	3,626	4,508
Cost of other revenues, selling, general and administrative	44,969	48,004
Total expenses	194,729	202,424
Pretax loss	$ (1,906)	$ (6,967)

Three months ended July 31, 2007 compared to July 31, 2006

Business Services' revenues for the three months ended July 31, 2007 decreased $2.6 million, or 1.3%, from the prior year. Accounting, tax and consulting service revenues totaled $162.8 million, down slightly from the prior year.

Capital markets revenues decreased $2.8 million, or 20.6% from the prior year due to a 73.4% decline in the number of business valuation projects, as this business begins to phase out valuation services and focus solely on capital market transactions.

Total expenses decreased $7.7 million, or 3.8%, for the three months ended July 31, 2007 compared to the prior year. Cost of services decreased $3.8 million, due primarily to a decrease in compensation and benefits.

Cost of other revenues, selling, general and administrative expenses decreased $3.0 million, or 6.3%, primarily due to decreases of $3.7 million and $2.0 million in consulting and legal fees, respectively, partially offset by increased costs associated with our business development and marketing initiatives and corporate shared services.

The pretax loss for the three months ended July 31, 2007 of $1.9 million compares favorably to a pretax loss of $7.0 million in the prior year.

CONSUMER FINANCIAL SERVICES

This segment is primarily engaged in offering brokerage services, along with investment planning and related financial advice through HRBFA and full-service banking through HRB Bank. HRBFA and HRB Bank, our "Block-branded" businesses, are focused on increasing client loyalty and retention by offering expanded financial services to our retail tax clients. HRBFA offers traditional brokerage services, as well as annuities, insurance, fee-based accounts, online account access, equity research and focus lists, model portfolios, asset allocation strategies, and other investment tools and information. Recruitment and retention of productive financial advisors is critical to the success of HRBFA. HRB Bank offers traditional banking services including checking and savings accounts, home equity lines of credit, individual retirement accounts, certificates of deposit and prepaid debit card accounts. HRBFA utilizes HRB Bank for certain FDIC-insured deposits for its clients. HRB Bank has also historically purchased loans from OOMC and HRBMC. During the first quarter of fiscal year 2008, HRB Bank stopped purchasing loans from OOMC and HRBMC, and the main source of future loan purchases is now other third-party loan originators.

Consumer Financial Services – Operating Statistics

Three months ended July 31,	2007	2006
Broker-dealer:		
Traditional brokerage accounts (1)	383,229	409,147
New traditional brokerage accounts funded by tax clients	3,311	3,188
Cross-service revenue as a percent of total production revenue	18.1%	17.6%
Average assets per traditional brokerage account	$ 84,775	$ 75,311
Average margin balances (millions)	$ 357	$ 451
Average customer payable balances (millions)	$ 560	$ 647
Number of advisors	936	938
Banking:		
Efficiency ratio (2)	37%	35%
Annualized net interest margin (3)	2.08%	3.65%
Annualized pretax return on average assets (4)	1.34%	1.15%
Total assets (thousands)	$ 1,336,705	$ 566,792
Loans purchased from affiliates (thousands):		
Purchased from affiliates	$ 56,341	$ 553,502
Put back to affiliates	(96,838)	—
	$ (40,497)	$ 553,502

(1) Includes only accounts with a positive balance.

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

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

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

Consumer Financial Services – Operating Results		(in 000s)
Three months ended July 31,	2007	2006
Service revenues:		
Financial advisor production revenue	$ 58,296	$ 47,019
Other	18,067	8,368
	76,363	55,387
Net interest income:		
Margin lending	12,272	13,799
Banking activities	7,503	3,729
	19,775	17,528
Provision for loan loss reserves	(2,084)	(1,338)
Other	40	265
Total revenues (1)	94,094	71,842
Cost of services:		
Compensation and benefits	41,207	31,864
Occupancy	5,179	5,061
Other	4,810	5,165
	51,196	42,090
Amortization of intangible assets	9,156	9,156
Selling, general and administrative	27,536	23,665
Total expenses	87,888	74,911
Pretax income (loss)	$ 6,206	$ (3,069)

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

Three months ended July 31, 2007 compared to July 31, 2006

Consumer Financial Services' revenues, net of interest expense and provision for loan loss reserves, for the three months ended July 31, 2007 increased $22.3 million, or 31.0%, over the prior year.

Financial advisor production revenue, which consists primarily of fees earned on assets under administration and commissions on client trades, was up $11.3 million, or 24.0%, from the prior year primarily due to higher annualized production per advisor driven by closed-end fund and annuity transactions. The following table summarizes the key drivers of production revenue:

Three months ended July 31,	2007	2006
Client trades	242,087	224,048
Average revenue per trade	$ 136.53	$ 112.68
Ending balance of assets under administration (billions)	$ 32.5	$ 30.8
Annualized productivity per advisor	$ 253,000	$ 195,000

Other service revenues increased $9.7 million due to $3.6 million in additional underwriting fees, a $3.0 million increase in fees received on money market accounts, and additional revenues from the H&R Block Prepaid Emerald MasterCard®.

Net interest income on banking activities increased $3.8 million from the prior year due to an increase in mortgage loans held for investment, partially offset by an increase in deposits. The following table summarizes the key drivers of net interest revenue on banking activities:

				(in 000s)
	Average Balance		Average Rate Earned (Paid)	
Three months ended July 31,	2007	2006	2007	2006
Loans	$ 1,339,049	$ 380,866	6.72%	7.00%
Investments	85,235	20,879	5.35%	4.93%
Deposits	1,105,125	247,445	(5.11%)	(5.13%)

We recorded a provision for loan losses of $2.1 million during the current quarter, compared to $1.3 million in the prior year. Our loan loss reserve as a percent of mortgage loans was 0.37% at July 31, 2007, compared to 0.25% at July 31, 2006.

Total expenses rose $13.0 million, or 17.3%, from the prior year. Compensation and benefits increased $9.3 million, or 29.3%, primarily due to higher commission and bonus payouts resulting from improved production revenue.

Selling, general and administrative expenses increased $3.9 million, or 16.4%, primarily due to gains on the disposition of certain assets recorded in the prior year.

Pretax income for the three months ended July 31, 2007 was $6.2 million compared to the prior year loss of $3.1 million.

CORPORATE, ELIMINATIONS AND INCOME TAXES ON CONTINUING OPERATIONS

The pretax loss recorded in our corporate operations for the three months ended July 31, 2007 was $15.6 million compared to $30.9 million in the prior year. The lower loss is primarily due to lower interest resulting from refinancing our $500.0 million Senior Notes with a facility at a lower interest rate, along with reduced legal costs. We also recorded $4.2 million of additional investment income.

Our effective tax rate for continuing operations was 40.2% and 39.3% for the three months ended July 31, 2007 and 2006, respectively. Our effective tax rate increased primarily due to changes in our estimated state tax rate. Our effective tax rate for discontinued operations was 42.5% and 45.2% for the three months ended July 31, 2007 and 2006, respectively. Our effective tax rate for discontinued operations for the full fiscal year ended April 30, 2007, was 34.5%. Due to the seasonality of our continuing operations, we expect that our effective tax rate for the full year ending April 30, 2008 for discontinued operations will be lower than our interim-period effective tax rate.

DISCONTINUED OPERATIONS

Discontinued operations includes OOMC and HRBMC, mortgage businesses primarily engaged in the origination and acquisition of non-prime and prime mortgage loans, the sale and securitization of mortgage loans and residual interests, and the servicing of non-prime loans. Income statement data presented below is net of eliminations of intercompany activities.

Discontinued Operations – Operating Statistics		(in 000s)
Three months ended July 31,	2007	2006
Volume of loans originated:		
Wholesale (non-prime)	$ 2,973,423	$ 7,207,631
Retail:		
Prime	85,254	584,426
Non-prime	226,803	259,888
	$ 3,285,480	$ 8,051,945
Loan characteristics:		
Weighted average FICO score (1)	616	614
Weighted average interest rate for borrowers (WAC) (1)	8.64%	8.68%
Weighted average loan-to-value (1)	80.0%	82.6%
Origination margin (% of origination volume):		
Loan sale premium (discount)	(2.12%)	1.48%
Residual cash flows from beneficial interest in Trusts	0.20%	0.56%
Gain on derivative instruments	0.68%	0.16%
Loan sale repurchase reserves	(4.79%)	(1.15%)
Retained mortgage servicing rights	0.71%	0.62%
	(5.32%)	1.67%
Cost of acquisition	0.08%	(0.14%)
Direct origination expenses	(0.62%)	(0.51%)
Net gain on sale – gross margin (2)	(5.86%)	1.02%
Other cost of origination	(2.00%)	(1.40%)
Other	0.06%	0.13%
Net margin	(7.80%)	(0.25%)
Total cost of origination (3)	2.62%	1.91%
Total cost of origination and acquisition	2.54%	2.05%
Loan delivery:		
Loan sales:		
Third-party buyers	$ 3,115,996	$ 7,914,333
HRB Bank, net of repurchases	(40,497)	553,502
	$ 3,075,499	$ 8,467,835
Execution price (4)	0.27%	1.31%

(1) Represents non-prime production.

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

(3) See “Reconciliation of Non-GAAP Financial Information” at the end of Part I, Item 2.

(4) Defined as total premium received divided by total balance of loans delivered to third-party investors or securitization vehicles (excluding mortgage servicing rights and the effect of loan origination expenses).

Discontinued Operations – Operating Results		(in 000s)
Three months ended July 31,	2007	2006
Components of gains on sales:		
Gain (loss) on mortgage loans	$ (57,374)	$ 161,366
Gain on derivatives	22,259	13,243
Loan sale repurchase reserves	(157,296)	(92,737)
Impairment of residual interests	(49,604)	(17,266)
	(242,015)	64,606
Interest income	15,099	15,300
Loan servicing revenue	97,399	108,924
Other	6,127	9,872
Total revenues	(123,390)	198,702
Cost of services	71,617	88,328
Cost of other revenues	56,070	73,200
Impairments	23,229	—
Selling, general and administrative	61,091	61,859
Total expenses	212,007	223,387
Pretax loss	(335,397)	(24,685)
Income tax benefit	(142,640)	(11,147)
Net loss	$ (192,757)	$ (13,538)

Three months ended July 31, 2007 compared to July 31, 2006

Conditions in the non-prime mortgage industry continued to be challenging during the three months ended July 31, 2007. Our mortgage operations, as well as the entire industry, were impacted by deteriorating conditions in the secondary market, where reduced investor demand for loan purchases, higher investor yield requirements and increased estimates for future losses reduced the value of non-prime loans. Under these conditions non-prime originators generally reported significant increases in losses and many were unable to meet their financial obligations. During the first quarter we continued to tighten our underwriting standards and eliminated some of our product offerings, which had the effect of reducing our loan origination volumes. Our wholesale origination volumes declined to $3.0 billion during the current quarter, down 58.7% from the prior year. We expect our origination volumes to remain substantially lower than recent historical levels for the foreseeable future, at approximately $200 million per month beginning in September 2007.

The pretax loss of $335.4 million for the three months ended July 31, 2007 includes losses of $4.5 million from our Business Services discontinued operations, with the remainder from our mortgage business. As discussed more fully below, mortgage results include $157.3 million in loss provisions and repurchase reserves, impairments of residual interests of $49.6 million and impairments of other assets totaling $23.2 million. The mortgage industry in August 2007 continued to be extremely volatile, which we believe will likely result in further significant impairments to our residual interests, beneficial interest in Trusts and loans held for sale in our second quarter, potentially in the range of $150 to $200 million. If conditions in the industry continue to decline, our future results would continue to be negatively impacted. See additional discussion in note 1 to the condensed consolidated financial statements.

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

		(dollars in 000s)
Three months ended July 31,	2007	2006
Application process:		
Total number of applications	28,774	73,736
Number of sales associates (1)	1,404	2,649
Closing ratio (2)	45.5%	53.8%
Originations:		
Total number of loans originated	13,082	39,672
WAC	8.64%	8.68%
Average loan size	$ 251	$ 203
Total volume of loans originated	$ 3,285,480	$ 8,051,945
Direct origination and acquisition expenses, net	$ 17,727	$ 52,566
Revenue (loan value):		
Net gain on sale — gross margin (3)	(5.86%)	1.02%

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

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

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

Gains on sales of mortgage assets decreased $218.7 million from the prior year. This decrease resulted primarily from significantly lower origination volumes and loan sale premiums, and increases in loan repurchase reserves and impairments of residual interests.

During the first quarter, concerns about credit quality in the non-prime industry resulted in lower demand for non-prime loans and a higher yield requirement by investors that purchase the loans. As a result, during the quarter we originated mortgage loans that, by the time we sold them in the secondary market, were valued at less than par. Our first quarter net gain on sale gross margin was a negative 5.86%. Additionally, our loan sale premium declined 360 basis points from 1.48% in the prior year, to a negative 2.12% in the current quarter. We wrote down our beneficial interest in Trusts by $72.5 million, reflecting a current value of loans in the warehouse of 92% of par, compared to 102% of par in the prior year.

The disruption in the secondary market, coupled with declining credit quality and increasing early payment defaults, caused investors in our loans to become increasingly more likely to execute on first payment default provisions available to them in loan sale agreements. Investors have also begun performing additional due diligence on loan pools, causing unprecedented numbers of loans to be excluded from loan pools before the sale. As a result, we continued to experience significant actual and expected loan repurchase activity. We recorded total loss provisions of $157.3 million during the current quarter compared to $92.7 million in the prior year. The provision recorded in the current quarter consists of $95.5 million recorded on loans sold during the current quarter and $61.8 million related to loans sold in the prior quarter. Loss provisions as a percent of loan volumes increased 364 basis points over the prior quarter. After we repurchased the loans, we experienced higher severity of losses on those loans. Based on historical experience, we assumed an average 38% loss severity at July 31, 2007, compared to 26% at April 30, 2007, on loans repurchased and expected to be repurchased due to default. See additional discussion of our reserves and repurchase obligations in “Critical Accounting Policies” and in note 11 to our condensed consolidated financial statements.

During the current quarter, the disruption in the secondary market also impacted our residual interests. We recorded impairments of residual interests of $49.6 million due to higher expected credit losses resulting from the decline in performance of the underlying collateral and an increase in our discount rate assumption from 25% to 47%. As of July 31, 2007, substantially all residual interests from originations prior to January 2007 were written down to zero value. Residual interests at July 31, 2007 have a current carrying value of $90.3 million.

During the current period, we recorded a net $22.3 million in gains, compared to gains of $13.2 million in the prior year, related to our various derivative instruments. The increase for the current quarter was caused primarily by increases in the value of our forward loan sale commitments. See note 11 to the condensed consolidated financial statements.

The value of MSRs recorded in the current quarter increased to 71 basis points from 62 basis points in the prior year. This increase is due to an increase in average loan balances and a change in our product mix, with a higher concentration of loans with a longer period before the interest rate reset, resulting in lower prepayment speeds. However, this increase was offset by an overall decline in origination volumes, resulting in a net decrease in gains on sales of mortgage loans of $26.8 million. See additional discussion of our MSR assumptions in "Critical Accounting Policies" and in note 11 to the condensed consolidated financial statements.

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

(dollars in 000s)

Three months ended July 31,	2007	2006
Average servicing portfolio:		
With related MSRs	$62,565,520	$63,562,956
Without related MSRs	3,024,082	10,443,256
	$65,589,602	$74,006,212
Ending servicing portfolio:		
With related MSRs	$61,341,200	$64,187,360
Without related MSRs	2,929,205	10,333,107
	$64,270,405	$74,520,467
Number of loans serviced	363,021	439,707
Average delinquency rate	15.42%	7.33%
Weighted average FICO score	622	621
Weighted average interest rate (WAC) of portfolio	8.35%	7.93%
Carrying value of MSRs	$ 232,714	$ 275,266

Loan servicing revenues decreased $11.5 million, or 10.6%, compared to the prior year. The decrease reflects a decline in our average servicing portfolio, which decreased 11.4%, to $65.6 billion. This decrease was partially offset by an increase in late fee income on delinquent loans and, to a lesser extent, a higher annualized rate earned on our servicing portfolio. Declines in our average servicing portfolio are primarily the result of a decline in the subservicing portfolio and significantly lower origination volumes, as discussed above. To the extent that origination volumes remain depressed, loan servicing revenues may continue to decline.

Total expenses for the three months ended July 31, 2007 declined $11.4 million, or 5.1%, from the prior year. Cost of services decreased $16.7 million primarily due to reductions in sales associates and other personnel and lower amortization of MSRs.

Cost of other revenues decreased $17.1 million, primarily due to our ongoing restructuring plans. As a result, compensation and benefits declined due to lower staffing levels, which was partially offset by increased occupancy expenses as a result of early termination costs on leases.

See discussion of the pending sale of OOMC in note 1 to the condensed consolidated financial statements and Part II, Item 1A, under "Potential Sale Transaction."

Selling, general and administrative expenses were essentially flat compared to the prior year, as restructuring charges of $16.1 million recorded in the current quarter were offset by lower operating expenses resulting from prior year restructuring activities.

The pretax loss for the three months ended July 31, 2007 was $335.4 million compared to a loss of $24.7 million in the prior year.

The loss from discontinued operations for the current period of $192.8 million is net of tax benefits of $142.6 million, and primarily includes income tax benefits related to OOMC. Losses from discontinued operations during fiscal year 2007 totaled $808.0 million, net of tax benefits of $425.0 million, including tax benefits related to OOMC of $374.6 million. Although the tax position associated with deferred tax benefits of discontinued businesses will more likely than not be sustained, there is a level of uncertainty associated with the amount of benefit. We believe the net deferred tax asset at July 31, 2007 is, more likely than not, realizable.

FINANCIAL CONDITION

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

CAPITAL RESOURCES & LIQUIDITY BY SEGMENT

Our sources of capital primarily include cash from operations, issuances of common stock and debt. We use capital primarily to fund working capital requirements, pay dividends and acquire businesses. Our Tax Services and Business Services segments are highly seasonal and therefore require the use of cash to fund operating losses during the period May through December. Our mortgage operations have incurred significant operating losses in recent quarters, also requiring the use of cash and working capital. As a result of off-season operating losses from our Tax Services and Business Services segments, and recent operating losses from our mortgage businesses, our commercial paper outstanding at July 31, 2007 totaled $1.2 billion, compared to $189.4 million at July 31, 2006.

Given the availability of our liquidity options, including our unsecured committed lines of credit (CLOCs), we believe our existing sources of capital at July 31, 2007 are significant and sufficient to meet our operating needs.

Cash From Operations. Cash used in operating activities for the first three months of fiscal 2008 totaled $432.2 million, compared with $476.1 million for the same period of the prior fiscal year. The change was due primarily to lower income tax payments.

Issuance of Common Stock. We issue shares of common stock, in accordance with our stock-based compensation plans, out of treasury shares. Proceeds from the issuance of common stock totaled $15.3 million and $13.2 million for the three months ended July 31, 2007 and 2006, respectively.

Dividends. Dividends paid totaled $43.9 million and $40.5 million for the three months ended July 31, 2007 and 2006, respectively.

Share Repurchases. There are 22.4 million shares remaining under share repurchase authorizations at July 31, 2007. We purchase shares on the open market in accordance with existing authorizations, subject to various factors including the price of the stock, our ability to maintain liquidity and financial flexibility, securities laws restrictions, internally and regulatory targeted capital levels and other investment opportunities.

The OTS requires us to maintain a three percent minimum ratio of adjusted tangible capital to adjusted total assets. Due to significant losses in our mortgage operations during fiscal year 2007, we did not meet this minimum capital requirement at April 30, 2007. Due to continued losses in our mortgage operations during the first quarter of fiscal year 2008 and normal seasonal operating losses of our continuing operations during the first eight months of fiscal year 2008, we expect to be non-compliant until the end of fiscal year 2008. We do not expect to be in a position to repurchase shares until fiscal year 2009.

Debt. In April 2007, we obtained a $500.0 million credit facility to provide funding for the $500.0 million of 8½% Senior Notes which were due April 16, 2007. This facility matures on December 20, 2007, at which time it will most likely be refinanced.

Commercial paper borrowings outstanding at July 31, 2007 totaled $1.2 billion and were primarily used to fund working capital needs. Subsequent to July 31, 2007, we drew on our CLOCs due to disruptions in the commercial paper market. See additional discussion in “Commercial Paper

Issuance and Short-Term Borrowings" and note 4 to the condensed consolidated financial statements.

Restricted Cash. We hold certain cash balances that are restricted as to use. Cash and cash equivalents — restricted totaled $287.8 million at July 31, 2007 compared to $332.6 million at April 30, 2007. Consumer Financial Services held $286.0 million of this total segregated in a special reserve account for the exclusive benefit of its broker-dealer clients.

Segment Cash Flows. A condensed consolidating statement of cash flows by segment for the three months ended July 31, 2007 follows. Generally, interest is not charged on intercompany activities between segments.

(in 000s)

	Tax Services	Business Services	Consumer Financial Services	Corporate	Discontinued Operations	Consolidated H&R Block
Cash provided by (used in):						
Operations	$(222,082)	$ 47,776	$ 46,796	$(227,402)	$ (77,271)	$(432,183)
Investing	(18,514)	(10,735)	112,168	(440)	3,068	85,547
Financing	(39,479)	—	(175,974)	125,457	(47,535)	(137,531)
Net intercompany	293,486	(52,207)	(2,841)	(320,861)	82,423	—

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

Tax Services. Tax Services has historically been our largest provider of annual operating cash flows. The seasonal nature of Tax Services generally results in a large positive operating cash flow in the fourth quarter. Tax Services used $222.1 million in its current three-month operations to cover off-season costs and working capital requirements. This segment used $18.5 million in investing activities primarily related to capital expenditures and acquisitions, and used $39.5 million in financing activities related to book overdrafts.

Business Services. Business Services funding requirements are largely related to receivables for completed work and “work in process.” We provide funding sufficient to cover their working capital needs. This segment provided $47.8 million in operating cash flows during the first three months of the year as a result of favorable changes in working capital, primarily the collection of accounts receivable. Business Services used $10.7 million in investing activities primarily related to capital expenditures and acquisitions.

Consumer Financial Services. In the first three months of fiscal year 2008, Consumer Financial Services provided $46.8 million in cash from its operating activities primarily due to the timing of cash deposits that are restricted for the benefit of its broker-dealer clients and net income generated during the quarter. The segment also provided $112.2 million in investing activities primarily from mortgage loans held for investment and used $176.0 million in financing activities due primarily to FDIC-insured deposits held at HRB Bank.

HRB Bank is a member of the Federal Home Loan Bank (FHLB) of Des Moines, which extends credit to member banks based on eligible collateral. At July 31, 2007, HRB Bank had FHLB advance capacity of $499.3 million, and there was $104.0 million outstanding balance on this facility. Mortgage loans held for investment of $1.2 billion were pledged as collateral on these advances.

Discontinued Operations. These operations primarily generate cash as a result of the sale and securitization of mortgage loans and residual interests, and as residual interests begin to cash flow. Our discontinued operations used $77.3 million in cash from operating activities primarily due to losses during the three months ended July 31, 2007. Operating cash flows of discontinued operations in the table above includes the net loss from discontinued operations of $192.8 million. Cash used in financing activities of $47.5 million reflects the repayment of an on-balance sheet securitization.

Due to market conditions, OOMC had significant borrowings on its line of credit from BFC. BFC provides a line of credit of at least $150 million for working capital needs. There is no commitment to fund any further operations of OOMC.

See discussion of changes in the off-balance sheet arrangements of our discontinued operations below.

OFF-BALANCE SHEET FINANCING ARRANGEMENTS

During the three months ended July 31, 2007, total committed off-balance sheet warehouse capacity was decreased from $8.8 billion to $7.5 billion. We also had an on-balance sheet facility with capacity of $500.0 million. As of July 31, 2007, additional uncommitted facilities of $2.0 billion were also potentially available, subject to counterparty approval.

One warehouse line was amended to remove a "minimum net income" financial covenant, which required OOMC to maintain a cumulative minimum net income of at least $1 for four consecutive fiscal quarters. As a result, OOMC now has $4.0 billion in committed warehouse facilities available, one without the minimum net income financial covenant and one with a waiver of the minimum net income financial covenant through at least April 25, 2008. At our projected origination levels, we estimate we would only need between $3.0 billion and $4.0 billion of available warehouse capacity at any given time. However, the sale of OOMC is subject to various closing conditions, including that OOMC maintain at least $8.0 billion of total capacity in its warehouse facilities throughout the period to the closing date, of which at least $2.0 billion is to be in the form of unused capacity at the closing date. At July 31, 2007, OOMC did not meet the minimum net income financial covenant contained in certain of its committed warehouse facilities. OOMC obtained waivers of the minimum net income financial covenants from warehouse facility providers as needed, to comply with the closing conditions of the sale of OOMC. These waivers extend through various dates as discussed below. If we do not obtain extensions of each facility and waiver that expires before completing the sale of OOMC, or replace existing capacity, we would be in violation of this closing condition.

Committed warehouse facilities and waivers, where applicable, of the minimum net income financial covenant obtained by OOMC expire as follows:

			(dollars in 000s)
Facility Expiration Date	Waiver Expiration Date	Total Capacity	Outstanding Loans
October 2, 2007	October 2, 2007	$ 1,000,000	$ 402,068
October 2, 2007	September 30, 2007	500,000(1)	9,157
October 31, 2007	N/A (2)	250,000	217,388
November 9, 2007	September 30, 2007	1,000,000	277,987
January 15, 2008	January 15, 2008	500,000	314,979
January 18, 2008	October 30, 2007	750,000	95,775
April 25, 2008	April 25, 2008	2,000,000	332,922
June 12, 2008	N/A (2)	2,002,000	431,899
		$ 8,002,000	$ 2,082,175

(1) Represents $500.0 million related to an on-balance sheet facility, as discussed below.

(2) The agreement related to this facility has been amended to remove the minimum net income financial covenant through the facility expiration date.

If a warehouse facility with a balance were to expire or a waiver were not granted, the loans on that facility would be moved to another facility with excess capacity.

Loans totaling $9.2 million were held on our on-balance sheet facility at July 31, 2007, with the related loans and liability reported in assets and liabilities held-for-sale.

Other than the changes outlined above, there have been no material changes in our off-balance sheet financing arrangements from those reported at April 30, 2007 in our Annual Report on Form 10-K.

COMMERCIAL PAPER ISSUANCE AND SHORT-TERM BORROWINGS

The following chart provides the debt ratings for BFC as of July 31, 2007:

	Short-term	Long-term	Outlook
Fitch	F2	A-	Negative
Moody's (1)	P2	A3	Negative
S&P (2)	A2	BBB+	Negative
DBRS (3)	R-1 (low)	A	Stable

(1) Long-term rating of Baa1 effective August 21, 2007.

(2) Short-term rating of A3 and long-term rating of BBB- effective August 31, 2007.

(3) All ratings have an outlook of "Under Review with Negative Implications" effective August 31, 2007.

At July 31, 2007, we maintained $2.0 billion in back-up credit facilities to support the commercial paper program and for general corporate purposes. The CLOCs have a maturity date of August 2010 and an annual facility fee in a range of six to fifteen basis points, based on our credit rating. We have $633.8 million in outstanding commercial paper as of August 31, 2007, which we anticipate will be refinanced by funds available through the CLOCs. The CLOCs, among other things, require we maintain at least $650.0 million of Adjusted Net Worth, as defined in the agreement, on the last day of any fiscal quarter. We had Adjusted Net Worth of $1.1 billion at July 31, 2007, representing excess stockholders' equity of $450.0 million. We believe we will continue to be in compliance for the remaining term of the agreement.

Other than the changes outlined above, there have been no material changes in our commercial paper program and short-term borrowings from those reported at April 30, 2007 in our Annual Report on Form 10-K.

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

We adopted the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN 48) on May 1, 2007. Total unrecognized tax benefits as of May 1, 2007 were $133.3 million, of which $89.0 million were tax positions that, if recognized, would impact the effective tax rate. We have classified the liability for unrecognized tax benefits as long term in the condensed consolidated balance sheet. We are unable to determine when, and if, unrecognized tax positions will result in obligations requiring future cash payments. See note 5 to the condensed consolidated financial statements for additional information.

Other than the change outlined above, there have been no material changes in our contractual obligations and commercial commitments from those reported at April 30, 2007 in our Annual Report on Form 10-K.

REGULATORY ENVIRONMENT

In March 2006, the OTS approved the federal savings bank charter of HRB Bank. HRB Bank commenced operations on May 1, 2006, at which time H&R Block, Inc. became a savings and loan holding company. As a savings and loan holding company, H&R Block, Inc. is subject to regulation by the OTS. Federal savings banks are subject to extensive regulation and examination by the OTS, their primary federal regulator, as well as the FDIC. In conjunction with H&R Block, Inc.'s application with the OTS for HRB Bank, we made commitments as part of our charter approval order (Master Commitment) which included, but were not limited to: (1) a three percent minimum ratio of adjusted tangible capital to adjusted total assets, as defined by the OTS; (2) maintain all HRB Bank capital within HRB Bank in accordance with the submitted three-year business plan; and (3) follow federal regulations surrounding intercompany transactions and approvals. We fell below the three percent minimum ratio at April 30, 2007. We notified the OTS of our failure to meet this requirement, and on May 29, 2007, the OTS issued a Supervisory Directive. We submitted a revised capital plan to the OTS on July 19, 2007, that projects we will regain compliance with the three percent minimum capital requirement by April 30, 2008. The revised capital plan contemplates that we will meet the minimum capital requirement primarily through earnings generated by our normal business operations in fiscal year 2008. The OTS has accepted our revised capital plan. We also fell below the three percent minimum ratio during our first quarter, and had adjusted tangible capital of negative $177.6 million, and a requirement of $168.3 million to be in compliance at July 31, 2007. Normal seasonal operating losses of our Tax and Business Services segments, and operating losses of our discontinued mortgage businesses, are also expected to cause us to be in non-compliance until the end of fiscal year 2008.

The Supervisory Directive included additional conditions that we will be required to meet in addition to the Master Commitment. The significant additional conditions included in the

Supervisory Directive are as follows: (1) requires HRB Bank to extend its compliance with a minimum 12.0% leverage ratio through fiscal year 2012; (2) requires H&R Block, Inc. to comply with the Master Commitment at all times, except for the projected capital levels and compliance with the three percent minimum ratio, as provided in the fiscal year 2008 and 2009 capital adequacy projections presented to the OTS on July 19, 2007; (3) institutes reporting requirements to the OTS quarterly and monthly by the Board of Directors and management, respectively; and (4) requires HRB Bank's Board of Directors to have an independent chairperson and at least the same number of outside directors as inside directors.

We have maintained compliance with the Supervisory Directive in fiscal year 2008. However, operating losses of our discontinued operations for the first quarter of fiscal year 2008 were higher than projected in our revised capital plan that was submitted to the OTS. As a result, our capital levels are lower than those projections. Based on our current operating plan, we still expect to be in compliance by April 30, 2008, the original date projected in the capital plan. In order to meet the three percent minimum ratio at April 30, 2008, we do not expect to be in a position to repurchase treasury shares until fiscal year 2009. If we are not in a position to cure deficiencies and if operating results are below our plan, a resulting failure could impair our ability to repurchase shares of our common stock, acquire businesses or pay dividends.

Achievement of the capital plan depends on future events and circumstances, the outcome of which cannot be assured. Failure to meet the conditions under the Master Commitment and the Supervisory Directive, including capital levels of H&R Block, Inc. and completion of a planned sale of OOMC by October 31, 2007, could result in the OTS taking further regulatory actions, such as a supervisory agreement, cease-and-desist orders and civil monetary penalties. It is possible that the sale of OOMC may not be completed by October 31, 2007. At this time, the financial impact, if any, of additional regulatory actions cannot be determined. See additional discussion related to this requirement in Part II, Item 1A, under "Regulatory Environment - Banking."

Other than the items discussed above, there have been no material changes in our regulatory environment from those reported at April 30, 2007 in our Annual Report on Form 10-K.

CRITICAL ACCOUNTING POLICIES

The following discussion is an update to previous disclosure regarding certain of our critical accounting policies and should be read in conjunction with the complete critical accounting policies disclosures included in our Annual Report on Form 10-K for the year ended April 30, 2007. For all of our critical accounting policies, we caution that future events rarely develop precisely as forecasted, and estimates routinely require adjustment and may require material adjustment.

Gains on Sales of Mortgage Assets

Variations in the assumptions we use affect the estimated fair values and the reported net gains on sales. Gains on sales of mortgage loans totaled a negative $57.4 million for the three months ended July 31, 2007 and $161.4 million for the three months ended July 31, 2006.

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

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

For early payment default-related losses, the amount of losses we expect to incur depends primarily on the frequency of early payment defaults, the rate at which defaulted loans subsequently become current on payments ("cure rate"), the propensity of the buyer of the loans to demand recourse under the loan sale agreement and the severity of loss incurred on loans which have been repurchased. The frequency of early payment defaults, cure rates and loss severity may vary depending on the creditworthiness of the borrower and economic factors such as home price appreciation and interest rates. To the extent actual losses related to repurchase activity are different from our estimates, the fair value of our repurchase reserves will increase or decrease. See note 11 to our condensed consolidated financial statements under "Commitments and Contingencies."

Declining credit quality, coupled with increasing early payment defaults, caused investors in our loans to become increasingly more likely to execute on first payment default provisions available to them in loan sale agreements. Investors have also begun performing additional due diligence on loans pools, causing unprecedented numbers of loans to be excluded from loan pools before the sale. As a result, we continued to experience significant actual and expected loan repurchase activity. We recorded total loss provisions of $157.3 million during the current quarter compared to $92.7 million in the prior year. The provision recorded in the current quarter consists of $95.5 million recorded on loans sold during the current quarter and $61.8 million related to loans sold in the prior quarter. At July 31, 2007, we assumed that substantially all loans that failed to make timely payments according to contractual early payment default provisions will be repurchased, and that approximately 4% of loans will be repurchased from sales that have not yet reached the contractual date upon which repurchases can be determined. Based on historical experience, we assumed an average 38% loss severity, up from 26% at April 30, 2007, on all loans repurchased and expected to be repurchased as of July 31, 2007. The increase in our loan repurchase liability was primarily due to the increase in our loss severity assumption.

Based on our analysis as of July 31, 2007, we estimated our liability for recourse obligations to be $72.2 million. The sensitivity of the recourse liability to 10% and 20% adverse changes in loss assumptions is $7.2 million and $14.4 million, respectively.

Valuation of MSRs

MSRs with a book value of $232.7 million are included in our condensed consolidated balance sheet at July 31, 2007. While changes in any assumption could impact the value of our MSRs, the primary drivers of significant changes to the value of our MSRs are prepayment speeds, discount rates, costs to service and ancillary fees. Below is a table showing the effect of a variation of a particular assumption on the fair value of our MSRs without changing any other assumptions. In reality, changes in one factor may result in changes in another, which might magnify or counteract the sensitivities.

Assumption	Impact on Fair Value
Prepayments (including defaults):	
Adverse 10% — % impact on fair value	(8%)
Adverse 20% — % impact on fair value	(15%)
Discount rate:	
Adverse 10% — % impact on fair value	(3%)
Adverse 20% — %$impact on fair value	(7%)
Ancillary Fees and Income:	
Adverse 10% — %impact on fair value	(4%)
Adverse 20% — % impact on fair value	(9%)
Costs to service:	
Adverse 10% — % impact on fair value	(5%)
Adverse 20% — % impact on fair value	(9%)

Valuation of Residual Interests

We use discounted cash flow models to determine the estimated fair values of our residual interests. We develop our assumptions for expected credit losses, prepayment speeds, discount rates and interest rates based on historical experience. Variations in our assumptions could materially affect the estimated fair values, which may require us to record impairments. In addition, variations will also affect the amount of residual interest accretion recorded on a monthly basis.

We recorded impairments totaling $49.6 million in our condensed consolidated income statements for the three months ended July 31, 2007. During the quarter, we increased our discount rate assumption from 25% to 47% as a result of continued uncertainty and volatility in the market and higher investor yield requirements. See note 11 to our condensed consolidated financial statements and Part I, Item 3 for additional discussion.

FORWARD-LOOKING INFORMATION

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

RECONCILIATION OF NON-GAAP FINANCIAL INFORMATION

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

Banking Ratios (dollars in 000s)

Three months ended July 31,	2007	2006
Efficiency Ratio:		
Total Consumer Financial Services expenses	$ 108,166	$ 81,898
Less: Interest and non-banking expenses	(104,043)	(80,564)
Non-interest banking expenses	$ 4,123	$ 1,334
Total Consumer Financial Services revenues	$ 114,372	$ 78,829
Less: Non-banking revenues and interest expense	(103,323)	(74,988)
Banking revenue — net of interest expense	$ 11,049	$ 3,841
	37%	35%
Net Interest Margin (annualized):		
Net banking interest revenue	$ 7,503	$ 3,729
Net banking interest revenue (annualized)	$ 30,012	$ 14,916
Divided by average assets	$ 1,442,299	$ 408,117
	2.08%	3.65%
Return on Average Assets (annualized):		
Total Consumer Financial Services pretax income	$ 6,206	$ (3,069)
Less: Non-banking pretax income (loss)	1,364	(4,238)
Pretax banking income	$ 4,842	$ 1,169
Pretax banking income (annualized)	$ 19,368	$ 4,676
Divided by average assets	$ 1,442,299	$ 408,117
	1.34%	1.15%

Discontinued Operations - Origination Margin (dollars in 000s)

Three months ended July 31,	2007	2006
Total expenses	$ 212,007	$ 223,387
Add: Expenses netted against gain on sale revenues	17,727	52,566
Less:		
Cost of services	71,617	88,328
Cost of acquisition	(2,603)	10,924
Allocated support departments	2,183	6,818
Other	72,568	16,480
	$ 85,969	$ 153,403
Divided by origination volume	$ 3,285,480	$ 8,051,945
Total cost of origination	2.62%	1.91%

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Item 7A of our Annual Report on Form 10-K for fiscal year 2007 presents discussions of market risks that may impact our future results. The following risk factors should be read in conjunction with that discussion.

Interest Rate Risk and Credit Spreads — Non-prime Originations. Interest rate changes and credit spreads impact the value of the loans underlying our beneficial interest in Trusts, on our balance sheet or in our origination pipeline, as well as residual interests in securitizations and MSRs.

As a result of loan sales to the Trusts, we remove the mortgage loans from our balance sheet and record the gain or loss on sale, cash proceeds, MSRs, repurchase reserves and a beneficial interest in Trusts, which represents our residual interest in the ultimate expected outcome from the disposition of the loans by the Trusts. See Part I, Item 2, “Off-Balance Sheet Financing Arrangements.” At July 31, 2007, there were $2.1 billion of loans held in the Trusts and the value of our beneficial interest in Trusts was $54.5 million. At July 31, 2007, we had $432.2 million of mortgage loans held for sale on our balance sheet. Approximately half of these loans were repurchased from whole loan investors or the Trusts. Changes in interest rates and other market factors including credit spreads may result in a change in value of our beneficial interest in Trusts and mortgage loans held for sale.

We are impacted by changes in loan sale prices including interest rates, credit spreads and other factors. We are exposed to interest rate risk and credit spreads associated with commitments to fund approved loan applications of $1.7 billion, subject to conditions and loan contract verification. Of the $1.7 billion of commitments to fund mortgage loans at July 31, 2007, all but $242.5 million were repriced to higher interest rates before funding in August 2007. We expect the majority of the repriced loans will not be funded.

During the current quarter, we used forward loan sale commitments, interest rate swaps and put options on Eurodollar futures to reduce our interest rate risk associated with our commitment to fund non-prime loans. During August 2007, we discontinued our use of interest rate swaps and put options. We continue to use forward loan sale commitments to reduce our exposure to interest rate risk and credit spreads. Changes in credit spread are derived from investor demand and competition for available funds. Investor demand can be impacted by sector performance and loan collateral performance. Sector performance factors include the stability of the industry and individual competitors. Uncertainty regarding the ability of the industry as a whole to meet repurchase obligations could impact credit spread demands by investors. Loan collateral performance or anticipated performance can be driven by actual performance of the collateral or by market-related factors impacting the industry as a whole. Credit spread risk can be reduced using forward loan sale commitments. However, locking into these commitments eliminates the potential for price adjustments.

Forward loan sale commitments represent our obligation to sell a non-prime loan at a specific price in the future and increase in value as rates rise and decrease as rates fall. The Trusts may fulfill these obligations in response to the exercise of a put option by the third-party beneficial interest holders. At July 31, 2007, we had forward loan sale commitments totaling $628.1 million. Forward loan sale commitments lock in the execution price on the loans that will be ultimately delivered into a loan sale.

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

We enter into interest rate caps and swaps to mitigate interest rate risk associated with mortgage loans that will be securitized and residual interests that are classified as trading securities because they will be sold in a subsequent NIM transaction. The caps and swaps enhance the marketability of the securitization and NIM transactions. An interest rate cap represents a right to receive cash if interest rates rise above a contractual strike rate, its value therefore increases as interest rates rise. The interest rate used in our interest rate caps and the floating rate used in swaps are based on LIBOR. At July 31, 2007 we had no assets or liabilities recorded related to interest rate caps.

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

Sensitivity Analysis. The sensitivities of certain financial instruments to changes in interest rates as of July 31, 2007 are presented below. The following table represents hypothetical instantaneous and sustained parallel shifts in interest rates and should not be relied on as an indicator of future expected results.

(in 000s)

	Carrying Value at July 31, 2007	Basis Point Change -300	-200	-100	+100	+200	+300
Mortgage loans held for investment	$ 1,241,281	$ 37,676	$ 31,833	$ 21,581	$ (22,465)	$ (47,345)	$ (72,970)
Mortgage loans held for sale	432,173	9,753	6,433	3,175	(3,031)	(5,239)	(8,072)
Residual interests in securitizations	90,315	1,422	(448)	(348)	4,714	7,489	8,652
Beneficial interest in Trusts — trading	54,450	86,359	55,223	25,319	(24,287)	(47,849)	(72,332)
Forward loan sale commitments	26,072	25,467	16,259	7,509	(7,224)	(14,138)	(21,521)

The table above addresses changes in interest rates only. See additional discussion of the impact of changes in the markets and the impact to our financial condition and results of operations in note 1 to the condensed consolidated financial statements.

There have been no other material changes in our market risks from those reported at April 30, 2007 in our Annual Report on Form 10-K.

ITEM 4. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

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

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

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

PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

RAL Litigation. We reported in our annual report on Form 10-K for the year ended Aril 30, 2007, certain events and information regarding lawsuits regarding the RAL Cases. The RAL Cases have involved a variety of legal theories asserted by plaintiffs. These theories include allegations that, among other things, disclosures in the RAL applications were inadequate, misleading and untimely; the RAL interest rates were usurious and unconscionable; we did not disclose that we would receive part of the finance charges paid by the customer for such loans; untrue, misleading or deceptive statements in marketing RALs; breach of state laws on credit service organizations; breach of contract, unjust enrichment, unfair and deceptive acts or practices; violations of the federal Racketeer Influenced and Corrupt Organizations Act; violations of the federal Fair Debt Collection Practices Act and unfair competition regarding debt collection activities; and that we owe, and breached, a fiduciary duty to our customers in connection with the RAL program.

The amounts claimed in the RAL Cases have been very substantial in some instances. We have successfully defended against numerous RAL Cases, some of which were dismissed on our motions for dismissal or summary judgment, and others were dismissed voluntarily by the plaintiffs after denial of class certification. Other cases have been settled, with one settlement resulting in a pretax expense of $43.5 million in fiscal year 2003 (the “Texas RAL Settlement”) and other settlements resulting in a combined pretax expense in fiscal year 2006 of $70.2 million (the “2006 Settlements”).

We believe we have meritorious defenses to the remaining RAL Cases and we intend to defend them vigorously. There can be no assurances, however, as to the outcome of the pending RAL Cases individually or in the aggregate. Likewise, there can be no assurances regarding the impact of the RAL Cases on our financial statements. The following is updated information regarding the pending RAL Cases that are attorney general actions or class actions or putative class actions for which there have been significant developments during the fiscal quarter ended July 31, 2007:

Lynne A. Carnegie, et al. v. Household International, Inc., H&R Block, Inc., et al., (formerly Joel E. Zawikowski, et al. v. Beneficial National Bank, H&R Block, Inc., Block Financial Corporation, et al.) Case No. 98 C 2178, United States District Court for the Northern District of Illinois, Eastern Division, instituted on April 18, 1998. This case is one of the cases in the 2006 Settlements. On April 19, 2006, we entered into a settlement agreement regarding this case, subject to final court approval. The settlement was approved by the court on August 28, 2006. The settlement is now final.

Sandra J. Basile, et al. v. H&R Block, Inc., et al, April Term 1992 Civil Action No. 3246 in the Court of Common Pleas, First Judicial District Court of Pennsylvania, Philadelphia County, instituted on April 23, 1993. The court decertified the class on December 31, 2003. The Pennsylvania appellate court subsequently reversed the trial court's decertification decision. On September 26, 2006, the Pennsylvania Supreme Court reversed the appellate court's reversal of the trial court's decision to decertify the class. On June 4, 2007, the appellate court affirmed its earlier decision. The Company is currently seeking review of the appellate court's decision by the Pennsylvania Supreme Court .

Peace of Mind Litigation. *Lorie J. Marshall, et al. v. H&R Block Tax Services, Inc., et al.,* Civil Action 2003L000004, in the Circuit Court of Madison County, Illinois, is a class action case filed on January 18, 2002, that was granted class certification on August 27, 2003. Plaintiffs' claims consist of five counts relating to the Peace of Mind (POM) program under which the applicable tax return preparation subsidiary assumes liability for additional tax assessments attributable to tax return preparation error. The plaintiffs allege that the sale of POM guarantees constitutes (i) statutory fraud by selling insurance without a license, (ii) an unfair trade practice, by omission and by "cramming" (i.e., charging customers for the guarantee even though they did not request it or want it), and (iii) a breach of fiduciary duty. In August 2003, the court certified the plaintiff classes consisting of all persons who from January 1, 1997 to final judgment (i) were charged a separate fee for POM by "H&R Block" or a defendant H&R Block class member; (ii) reside in certain class states and were charged a separate fee for POM by "H&R Block" or a defendant H&R Block class member not licensed to sell insurance; and (iii) had an unsolicited charge for POM posted to their bills by "H&R Block" or a defendant H&R Block class member. Persons who received the POM guarantee through an H&R Block Premium office and persons who reside in Alabama are excluded from the plaintiff class. The court also certified a defendant class consisting of any entity with names that include "H&R Block" or "HRB," or are otherwise affiliated or associated with H&R Block Tax Services, Inc., and that sold or sells the POM product. The trial court subsequently denied the defendants' motion to certify class certification issues for interlocutory appeal. Discovery is proceeding. No trial date has been set.

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

We believe the claims in the POM actions are without merit, and we intend to defend them vigorously. The amounts claimed in the POM actions are substantial, however, and there can be no assurances as to the outcome of these pending actions individually or in the aggregate. Likewise, there can be no assurances regarding the impact of these actions on our consolidated financial statements.

Express IRA Litigation. On March 15, 2006, the New York Attorney General filed a lawsuit in the Supreme Court of the State of New York, County of New York (Index No. 06/401110) entitled *The People of New York v. H&R Block, Inc. and H&R Block Financial Advisors, Inc.* The complaint alleged fraudulent business practices, deceptive acts and practices, common law fraud and breach of

fiduciary duty with respect to the Express IRA product and sought equitable relief, disgorgement of profits, damages and restitution, civil penalties and punitive damages. On July 12, 2007, the Supreme Court of the State of New York issued a ruling that dismissed all defendants other than H&R Block Financial Advisors, Inc. and the claims of common law fraud. We intend to defend this case vigorously, but there are no assurances as to its outcome.

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

Securities Litigation. On April 6, 2007, a putative class action styled *In re H&R Block Securities Litigation* was filed against the Company and certain of its officers in the United States District Court for the Western District of Missouri. The complaint alleges, among other things, deceptive, material and misleading financial statements, failure to prepare financial statements in accordance with generally accepted accounting principles and concealment of the potential for lawsuits stemming from the allegedly fraudulent nature of the Company's operations. The complaint seeks unspecified damages and equitable relief. We intend to defend this litigation vigorously, but there are no assurances as to its outcome.

Other Claims and Litigation. As reported previously, the NASD brought charges against HRBFA regarding the sale by HRBFA of Enron debentures in 2001. A hearing for this matter was concluded in August 2007, with post-hearing briefs to be submitted in October 2007. We intend to defend the NASD charges vigorously, although there can be no assurances regarding the outcome and resolution of the matter.

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

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

We have from time to time been party to investigations, claims and lawsuits not discussed herein arising out of our business operations. These investigations, claims and lawsuits include actions by state attorneys general, other state regulators, individual plaintiffs, and cases in which plaintiffs seek to represent a class of similarly situated customers. The amounts claimed in these claims and lawsuits are substantial in some instances, and the ultimate liability with respect to such litigation and claims is difficult to predict. Some of these investigations, claims and lawsuits pertain to RALs, the origination and servicing of mortgage loans, the electronic filing of customers' income tax returns, the POM guarantee program, and our Express IRA program and other investment products and RSM EquiCo, Inc. business valuation services. We believe we have meritorious defenses to each of these claims, and we are defending or intend to defend them vigorously, although there is no assurance as to their outcome. In the event of an unfavorable outcome, the amounts we may be required to pay in the discharge of liabilities or settlements could have a material adverse effect on our consolidated financial statements.

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

ITEM 1A. RISK FACTORS

Item 1A of our Annual Report on Form 10-K for fiscal year 2007 presents risk factors that may impact our future results. In light of recent developments in the mortgage, housing and secondary markets, the following risk factors should be read in conjunction with that discussion.

Potential Sale Transaction. In fiscal year 2007, we entered into an agreement to sell OOMC. The purchase price to be received in connection with the sale of OOMC will consist of payments based on the fair value of the adjusted tangible net assets of OOMC, as defined in the agreement, as of the date of sale less $300.0 million. Because the final sale price will be based on third-party bids and valuations received at closing as well as the ultimate value received upon disposition of certain assets after closing, and because market conditions have changed and may change significantly during the period prior to closing, the value of the adjusted tangible net assets of the business at closing may be significantly different than the value as of July 31, 2007. In addition, the transaction is subject to various closing conditions, including: (1) maintenance of at least $8.0 billion of warehouse lines; (2) existence of at least $2.0 billion of loans in the warehouse facilities at the date of closing, all originated within the prior 60 days; (3) the lack of any material adverse events or conditions; (4) OOMC have servicer ratings of at least RPS2 by Fitch, SQ2 by Moody's and Above Average by S&P, (5) agreed upon regulatory and other approvals and consents be obtained; and (6) we provide audited financial statements of OOMC for the year ended April 30, 2007 by July 31, 2007, with the lack of a going concern explanatory paragraph related to OOMC, except to the extent necessary as a result of specified permitted conditions.

We continue to expect to complete the sale of OOMC pursuant to the April 2007 agreement by December 31, 2007. However, we are not currently in compliance with certain closing conditions required by this agreement and do not believe we will be able to regain compliance with such closing conditions or maintain compliance through the anticipated closing date. We are currently in discussions with Cerberus Capital Management to have such conditions either waived or modified. We are also conducting ongoing discussion regarding potentially modifying the agreement, which may include only selling the servicing platform, although we currently believe it is unlikely that the existing agreement will ultimately be changed. Therefore, it is our intention to consummate the transaction under the existing agreement on or before December 31, 2007. If the sale is not consummated, then we would divest the servicing platform and either divest or wind-down the origination business. There are no assurances that the current agreement will be modified or that the transaction will close. Our condensed consolidated financial statements as of July 31, 2007 include an impairment charge which reflects our best estimate of the valuation of OOMC based on the terms of the existing agreement. See additional discussion in note 11. If the agreement is modified, we may incur additional impairment losses, which could be significant, beyond those that are provided in our financial statements. However, we are currently unable to estimate the amount of such additional impairment, if any, until the terms of a modified agreement are determined.

See discussion of warehouse facilities and related waivers in note 11 to the condensed consolidated financial statements and in Part I, Item 2 under "Off-Balance Sheet Financing Arrangements." If the closing conditions are not satisfied by the requisite time, the sale could be terminated. Failure to complete this transaction could adversely affect the market price of our stock. If conditions in the non-prime mortgage industry, particularly in home appreciation, continue to decline, our operating results, capital levels and liquidity could be negatively impacted during the periods we continue to own OOMC.

Liquidity and Capital. We are dependent on the use of our off-balance sheet arrangements to fund our daily non-prime mortgage loan originations, and depend on the secondary market to securitize and sell mortgage loans and residual interests. Our off-balance sheet arrangements are subject to certain covenants, including a "minimum net income" financial covenant.

One warehouse line was amended to remove a "minimum net income" financial covenant, which required OOMC to maintain a cumulative minimum net income of at least $1 for four consecutive fiscal quarters. As a result, OOMC now has $4.0 billion in committed warehouse facilities available, one without the minimum net income financial covenant and one with a waiver of the minimum net income financial covenant through at least April 25, 2008. At our projected origination levels, we estimate we would only need between $3.0 billion and $4.0 billion of available warehouse capacity at any given time. However, the sale of OOMC is subject to various closing conditions, including that OOMC maintain

at least $8.0 billion of total capacity in its warehouse facilities throughout the period to the closing date (of which at least $2.0 billion is to be in the form of unused capacity at the closing date). At July 31, 2007, OOMC did not meet the minimum net income financial covenant contained in certain of its committed warehouse facilities. OOMC obtained waivers of the minimum net income financial covenants from warehouse facility providers as needed, to comply with the closing conditions of the sale of OOMC. These waivers extend through various dates. If we do not obtain extensions of each facility and waiver that expires before completing the sale of OOMC, or replace existing capacity, we would be in violation of this closing condition. See additional discussion in note 11 to the condensed consolidated financial statements.

Market Risks. Our day-to-day operating activities of originating and selling mortgage loans have many aspects of interest rate risk. Additionally, the valuation of our retained residual interests and mortgage servicing rights includes many estimates and assumptions made by management surrounding interest rates, prepayment speeds and credit losses. Variation in interest rates or the factors underlying our assumptions could affect our results of operations.

Conditions in the non-prime mortgage industry continued to be challenging into fiscal year 2008. Our mortgage operations, as well as the entire industry, were impacted by deteriorating conditions in the secondary market, where reduced investor demand for loan purchases, higher investor yield requirements and increased estimates for future losses reduced the value of non-prime loans. Under these conditions non-prime originators generally reported significant increases in losses and many were unable to meet their financial obligations. As a result, during our first quarter our mortgage operations originated mortgage loans that, by the time we sold them in the secondary market, were valued at less than par. Conditions in the non-prime mortgage industry resulted in significant losses in our mortgage operations during the first quarter of fiscal year 2008. The mortgage industry in August 2007 continued to be extremely volatile, which we believe will likely result in further significant impairments to our residual interests, beneficial interest in Trusts and loans held for sale in our second quarter, potentially in the range of $150 to $200 million. To the extent that market conditions remain volatile, or fail to improve, our mortgage business may continue to incur operating losses and asset impairments. See additional discussion of the performance of our mortgage operations in Part I, Item 2, under “Discontinued Operations.” If conditions in the non-prime mortgage industry do not improve, it could adversely affect the results of our mortgage operations.

Regulatory Environment — Banking. H&R Block, Inc. is subject to a three percent minimum ratio of adjusted tangible capital to adjusted total assets, as defined by the OTS. We fell below the three percent minimum ratio at April 30, 2007. We notified the OTS of our failure to meet this requirement, and on May 29, 2007, the OTS issued a Supervisory Directive. We submitted a revised capital plan to the OTS on July 19, 2007, that projects we will regain compliance with the three percent minimum capital requirement by April 30, 2008. The revised capital plan contemplates that we will meet the minimum capital requirement primarily through earnings generated by our normal business operations in fiscal year 2008. The OTS has accepted our revised capital plan. We also fell below the three percent minimum ratio during our first quarter, and had adjusted tangible capital of negative $177.6 million, and a requirement of $168.3 million to be in compliance at July 31, 2007. Normal seasonal operating losses of our Tax and Business Services segments, and operating losses of our discontinued mortgage businesses, are also expected to cause us to be in non-compliance until the end of fiscal year 2008.

The Supervisory Directive included additional conditions that we will be required to meet in addition to the Master Commitment. The significant additional conditions included in the Supervisory Directive are as follows: (1) requires HRB Bank to extend its compliance with a minimum 12.0% leverage ratio through fiscal year 2012; (2) requires H&R Block, Inc. to comply with the Master Commitment at all times, except for the projected capital levels and compliance with the three percent minimum ratio, as provided in the fiscal year 2008 and 2009 capital adequacy projections presented to the OTS on July 19, 2007; (3) institutes reporting requirements to the OTS quarterly and monthly by the Board of Directors and management, respectively; and (4) requires HRB Bank’s Board of Directors to have an independent chairperson and at least the same number of outside directors as inside directors.

We have maintained compliance with the Supervisory Directive in fiscal year 2008. However, operating losses of our discontinued operations for the first quarter of fiscal year 2008 were higher than projected in our revised capital plan that was submitted to the OTS. As a result, our capital levels are lower than those projections. Based on our current operating plan, we still expect to be in compliance by April 30, 2008, the original date projected in the capital plan. In order to meet the three percent minimum ratio at April 30, 2008, we do not expect to be in a position to repurchase treasury shares until fiscal year 2009. If we are not in a position to cure deficiences, and if operating results are below our plan, a resulting failure could impair our ability to repurchase shares of our common stock, acquire businesses or pay dividends.

Achievement of the capital plan depends on future events and circumstances, the outcome of which cannot be assured. Failure to meet the conditions under the Master Commitment and the Supervisory Directive, including capital levels of H&R Block, Inc. and completion of a planned sale of OOMC by October 31, 2007, could result in the OTS taking further regulatory actions, such as a supervisory agreement, cease-and-desist orders and civil monetary penalties. It is possible that the sale of OOMC may not be completed by October 31, 2007. At this time, the financial impact, if any, of additional regulatory actions cannot be determined. See note 6 to the condensed consolidated financial statements for additional information.

Other than the items discussed above, there have been no material changes in our risk factors from those reported at April 30, 2007 in our annual Report on Form 10-K.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES

A summary of our purchases of H&R Block common stock during the first quarter of fiscal year 2008 is as follows:

(shares in 000s)

	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 Number of Shares that May Be Purchased Under the Plans or Programs (2)
May 1 - May 31	5	$22.89	—	22,352
June 1 - June 30	8	$23.29	—	22,352
July 1 - July 31	217	$23.34	—	22,352

(1) We purchased 230,235 shares in connection with the funding of employee income tax withholding obligations arising upon the exercise of stock options or the lapse of restrictions on nonvested shares.

(2) On June 9, 2004, our Board of Directors approved the repurchase of 15.0 million shares of H&R Block, Inc. common stock. On June 7, 2006, our Board approved an additional authorization to repurchase 20.0 million shares. These authorizations have no expiration date.

ITEM 5. OTHER INFORMATION

As previously disclosed in a Form 8-K filed on August 22, 2007 (the “2005 8-K”), Block Financial Corporation (BFC), a wholly-owned subsidiary of the Company is a party to a $1.0 billion Five-Year Credit and Guarantee Agreement dated August 10, 2005 and a $1.0 billion Amended and Restated Five-Year Credit and Guarantee Agreement dated August 10, 2005 (collectively, the “BFC Credit Facilities”).

On August 31, 2007, BFC drew a combined $200.0 million under the BFC Credit Facilities, and on September 7, 2007, BFC will draw a combined $350.0 million under the BFC Credit Facilities. The $200.0 million draw will be repaid with proceeds from the $350.0 million draw. The draws provide a more stable source of funds to support BFC’s short-term needs in light of recent market conditions that have negatively impacted the availability and term of commercial paper. The August 31 draw bears interest at the Alternate Base Rate (as defined in the BFC Credit Facilities). The $350.0 million draw will bear interest at the Eurodollar Rate (as defined in the BFC Credit Facilities) plus an applicable margin and is subject to adjustments as set forth in the BFC Credit Facilities. The amounts borrowed under the BFC Credit Facilities become due and payable on August 10, 2010.

The BFC Credit Facilities contain representations, warranties, covenants and events of default customary for financings of this type. One such covenant requires the Company to maintain a

certain level of Adjusted Net Worth, which currently is at least $650.0 million at the last day of any fiscal quarter (Adjusted Net Worth of $1.0 billion reduced by the Company's repurchases of its own Capital Stock subsequent to April 30, 2005 in an aggregate amount not exceeding $350.0 million). The BFC Credit Facilities also include, without limitation covenants restricting the Company's and BFC's 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.

In the event of a default by the Company or BFC under the BFC Credit Facilities, the Administrative Agent may, or at the direction of the requisite lenders shall, terminate the applicable Credit Facility and declare the loans then outstanding, together with any accrued interest thereon and all fees and other obligations of the Company and BFC under such Credit Facility, to be due and payable immediately.

ITEM 6. EXHIBITS

10.1 License Agreement effective August 1, 2007, between H&R Block Services, Inc. and Sears, Roebuck and Co.*

10.2 Amendment Number Eleven dated June 29, 2007 to the Amended and Restated Indenture dated as of November 25, 2003, between Option One Owner Trust 2001-2 and Wells Fargo Bank N.A.

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

10.4 Waiver and Amendment Number Two to Amended and Restated Sale and Servicing Agreement dated July 19, 2007 by and among Option One Owner Trust 2003-5, Option One Mortgage Corporation, Option One Mortgage Capital Corporation, Option One Loan Warehouse LLC, Wells Fargo Bank, National Association, and Citigroup Global Markets Realty Corp.

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.

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

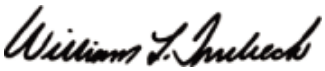
** Indicates management contract, compensatory plan or arrangement.

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.

Mark A. Ernst
Chairman of the Board, President
and Chief Executive Officer
September 5, 2007



William L. Trubeck
Executive Vice President and
Chief Financial Officer
September 5, 2007

Jeffrey E. Nachbor
Senior Vice President and
Corporate Controller
September 5, 2007

Exhibit 10.1

LICENSE AGREEMENT
EFFECTIVE AUGUST 1, 2007

NOTE: CERTAIN MATERIAL HAS BEEN OMMITTED FROM THIS AGREEMENT PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT UNDER RULE 24b-2. THE LOCATIONS OF THESE OMISSIONS ARE INDICATED THROUGHOUT THE AGREEMENT BY THE FOLLOWING MARKINGS: [***].

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GLOSSARY OF TERMS

1. "Additional Location" means any Designated Company Store added after the Effective Date.

2. "Authorized Services"

   (a) tax preparation and filing services and any service or product related thereto as offered by Licensee in Sears stores at any time prior to April 17, 2007, including:

      (i) processing and financing customer balance due tax payments;

      (ii) depositing, financing, transferring or otherwise handling customer tax refunds,

      (iii) establishing or facilitating bank, savings, or investment accounts that may be set up or funded with a customer's tax refund or anticipated refund proceeds (currently H&R Block Easy IRA's, H&R Block Easy Savings Accounts, and prepaid debit cards),

      (iv) products currently known as refund anticipation loans, refund anticipation checks, and instant money advance loans (or similar loans which may be offered under different names); and

      (v) any service guarantee or extended warranty related to any of the foregoing including Licensee's Peace of Mind service guarantee,

   (b) additional services and products not covered by subsection (a) above; provided, however, that Company may prohibit Licensee from offering such products or services within Company Stores but only as provided in this subsection (b):

      (i) Licensee shall provide Company a written notice of its intent to offer any additional services and products by August 1 prior to the Tax Season during which Licensee proposes to offer such services or products, including:

         A. a full description of each service or product including its use, operation, and value proposition to the consumer (sufficient to enable a person who is knowledgeable in the service or product's industry to distinguish it from alternative services or products available in the industry);

         B. the geographic scope of Licensee's offering;

         C. the launch date and expected duration of the offer; and

         D. a description of the target market for the service or product.

      (ii) Company may prohibit Licensee from offering such additional services and products if Company provides Licensee written notice of its reason for such prohibition within 30 days after its receipt of Licensee's notice of its intent to offer such the intended services and products, advising that Licensee's offering of such services or products would, in Company's sole judgment:

A. cause Company to breach a third-party contract requirement existing prior to the date of Licensee's notice (or a similar contract requirement in a successor contract, enacted after the date of Licensee's notice; provided, however, that Company shall not enter into a successor contract that would prohibit Licensee from offering a service or product that Licensee has been authorized to offer in Company Stores in any of the five previous years); or

B. involve the offer or sale of competing merchandise or services otherwise offered by Company.

(iii) In addition, Company may prohibit Licensee from offering additional services and products if Company determines in its sole discretion that such services or products would likely negatively affect the Sears brand, if Company notifies Licensee in writing within 15 days after its receipt of notice from Licensee of the intended offering of services and products of the specific grounds for judging such service or product to have a likely effect of negatively impacting the Sears brand. Licensee shall then have 15 days to modify such service or product to address Company's grounds for concern and if properly addressed, such service or product may be offered in Company Stores and shall be deemed an Authorized Service. In the event such concerns cannot be addressed in Sears' sole judgment, Licensee may not offer such product or service in Company Stores. If Company does not prohibit Licensee from offering a service or product, such service or product shall be deemed an Authorized Service. Company acknowledges that it may not withhold its approval for the purpose of negotiating any form of consideration or for any other reason, except as specifically set forth above.

(iv) This subsection (b) does not affect other provisions of this Agreement that restrict Licensee's offering or performance of certain services and products, e.g., compliance with laws.

(c) Unless otherwise agreed in writing, Company retains the right to offer additional services that are not related to tax preparation services in any Company Stores at any time, even if Licensee is offering those same or similar services; provided, however, that after the Effective Date, Company shall not grant an exclusive right to any other licensed business to offer such services if Licensee is offering those same or similar services.

(d) The parties acknowledge that if Licensee is prohibited from offering services or products pursuant to subsection (b) above, Licensee shall no longer be obligated to tag its advertisements of such prohibited services or products as provided in Section 7.1, and Licensee may include a disclaimer in any advertising of the unavailability of such service or product at the Company Stores as deemed legally advisable by Licensee in Licensee's sole discretion.

3. "Block Plan" means a diagram submitted by Company to Licensee showing the defined area of space to be provided by Company for the operation of the Licensed Business in a Designated Company Store.

4. “Cardholder” means any person whose name is on the Credit Card or any authorized user of such Credit Card.

5. “Change in Control” means an asset sale, merger, consolidation, or any other transaction or arrangement the effect of which is that more than 50% of the total voting power entitled to vote in the election of the board of directors of either party’s ultimate parent company is held by a person or group other than the shareholders of such party, who, individually or as a group, held at least 50% of such voting power immediately prior to such event. For purposes of this definition:

    (a) A “group” is two or more persons acting in coordination as a partnership, limited partnership, syndicate, or other group for the purpose of acquiring, holding, or disposing of securities of an issuer; and

    (b) A party’s “ultimate parent company” is that entity that owns, or that combination of entities that together own, directly or indirectly, at least 50% of the ownership interest in the party, and that is not owned in turn by persons who are dedicated jointly for the advancement of the business purposes of the party.

6. “Check Cashing Fee” means the fee charged by Company for cashing loan checks and refund anticipation checks bearing the name of Company’s authorized tax preparation licensed business operator, issued by participating banks.

7. “Company Advertisements” means the national advertising activities that Licensee shall engage in from December 1 through April 15 of each year during the Term, using a Company tagline consistent with the tagline used prior to the date hereof.

8. “Company Confidential Business Information” means any information, whether disclosed in oral, written, visual, electronic or other form, that Company discloses or Licensee observes in connection with Licensee’s performance under this Agreement that is (i) conspicuously marked or identified at the time of disclosure as “Confidential” or “Proprietary,” (ii) disclosed in other than written form which is confirmed in writing to Licensee as confidential (with a description or summary of the information disclosed) within seven days of disclosure, or (iii) would reasonably be deemed to be confidential based on the facts as circumstances. Company Confidential Business Information includes Company’s customer lists, business plans, strategies, forecasts and analyses, financial information, employee and vendor information; software (including documentation and code), hardware and system designs and protocols, product and service specifications, purchasing, logistics, sales, marketing and other business processes, and the terms and conditions of this Agreement.

9. “Company Customer Information” means all personal and demographic information about individual Company’s customers gathered by Company in the operation of its business, including names, addresses, and telephone numbers.

10. “Company Fees” means the fees Licensee shall pay to Company.

11. “Company Marks” means trademarks, service marks and trade names and Licensed Business Marks that are exclusively owned by or licensed to Company or any of its

affiliates, other than the Licensed Business Name and Licensee Marks listed on Schedule 4.3A.

12. "Company Store" means any traditional Sears brand full-line store locations primarily found in mall locations and the following Sears Grand stores:

Store Number	Location
1802	Gurnee, IL
1813	Pittsburgh Mills, PA
1818	Rancho Cucamonga, CA
1822	Cape Girardeau, MO
1828	Las Vegas, NV
1831	Thornton, CO
1847	Austin, TX
1888	West Jordan, UT

13. "Confidential Business Information" means any information, whether disclosed in oral, written, visual, electronic or other form, which either party discloses or observes in connection with any performance under this Agreement.

14. "Credit Card" means each Sears Card or Third Party Credit Card.

15. "Customer" means any customer who becomes first known to Licensee as a result of contact made through Licensee's operation of the Licensed Business and who subsequently purchases services from Licensee in the Licensed Business or in another location during the same Tax Season.

16. "Default" means any circumstance described in Section 14.2 or Section 14.3 (as applicable) that entitles a party to terminate the Agreement immediately upon delivery of written notice of such termination to the other.

17. "Designated Company Stores" means the Company Stores listed on Schedule 1.1B, where Licensee will operate a Licensed Business during the Tax Season.

18. "Existing Location" means any Designated Company Store where the Licensed Business was in operation either by Licensee or another vendor prior to the Effective Date.

19. "Forms" means any or all customer contract forms, warranty or guarantee documentation and other forms and materials.

20. "Gross Sales" means fees collected from the Licensed Business for all of Licensee's Tax Services and Peace of Mind.

21. "Labor Laws" means all federal, state and local laws, ordinances rules and regulations which Licensee shall comply with regarding its employees.

22. "Licensed Business" means the non-exclusive privilege of conducting and operating a licensed business under this Agreement.

23. “Licensed Business Area” means the location within each Designated Company Store where Licensee is authorized to operate the Licensed Business and the specific business being conducted pursuant to the license granted under this Agreement.

24. “Licensed Business Marks” means the Licensed Business Name and any other trademarks and service marks used in connection with the Licensed Business that have been approved by both Company and Licensee.

25. “Licensed Business Name” means the name “H&R Block at Sears” under which Licensee shall operate the Licensed Business in Designated Company Stores, excluding mall locations.

26. “Licensee Confidential Business Information” means any information, whether disclosed in oral, written, visual, electronic or other form, that Licensee discloses or Company observes in connection with Company’s performance under this Agreement, that is (i) conspicuously marked or identified at the time of disclosure as “Confidential” or “Proprietary,” (ii) disclosed in other than written form which is confirmed in writing to Company as confidential (with a description or summary of the information disclosed) within seven days of disclosure, or (iii) would reasonably be deemed to be confidential based on the facts and circumstances. Licensee Confidential Business Information includes Licensee’s customer lists, business plans, strategies, forecasts and analyses, financial information, employee and vendor information, software (including documentation and code), hardware and system designs, and protocols, product and service specifications, purchasing, logistics, sales, marketing and other business processes, and the terms and conditions of this Agreement.

27. “Licensee Customer Information” means all personal and demographic information about Licensee’s customers gathered by Licensee in the operation of the Licensed Business, including names, addresses, telephone numbers and tax return information.

28. “Licensee Marks” means the trademarks, service marks and trade names that are exclusively owned by or licensed to Licensee or any of its affiliates listed on Schedule 4.3A, and excluding the Licensed Business Name.

29. “Licensee Owned Retail Territories” means the areas in which Licensee is the direct provider of Tax Services under Licensee’s trademarks excluding Licensee’s franchised territories.

30. “Licensee POS Terminal” means a point of sale terminal for processing credit and debit card transactions that Licensee shall furnish at its expense.

31. “Licensee’s Equipment” means all furniture, fixtures and equipment necessary for the efficient operation of the Licensed Business.

32. “Marks” means Licensee Marks and Company Marks.

33. “Net Sales” means Gross sales from operation of the Licensed Business, less taxes, returns, allowances or adjustments and discounts.

34. “New Client” means a paying client who did not have his or her individual tax return prepared at any H&R Block office (company or franchise), and who was not a user of any H&R Block digital tax preparation software or online product, during the prior Tax Season.

35. “Non-Peak Season” means the period from February 16 through March 31 during each Tax Season.

36. “Other Sears Stores” means retail formats of Sears-branded stores other than Company Stores and Sears Authorized Retail Dealer Stores that are in existence as of the Effective Date..

37. “Peace of Mind” means Licensee’s branded Peace of Mind Extended Warranty Service offered to tax clients.

38. “Peak Season” means the periods from January 2-February 15 and April 1-April 30 during each Tax Season.

39. “RAC” means a refund anticipation check.

40. “RAL” means a refund anticipation loans.

41. “Representatives” means each party’s employees, directors, officers, agents and professional advisers, and each party’s affiliates and their respective employees, directors, officers, agents and professional advisors.

42. “Sears Card” means a credit card issued with branding using a Company Mark, such as a SearsCard®, Sears Premier Card®, Sears MasterCard®, Sears Gold MasterCard®, Sears Premier Gold MasterCard®, and The Great Indoors® Gold MasterCard®, with which a customer may tender payment for the Authorized Services.

43. “Shopping Mall” means a group of stores and businesses facing a central system of walkways for pedestrians, surrounded by or contiguous with a private, shared parking lot. For purposes of this Agreement, shopping mall includes both malls where stores surround the central system of pedestrian walkways, and “strip shopping centers,” where a line of stores faces the parking areas, with the pedestrian walkway separating the stores and parking areas.

44. “Tax Classes” means the operation of income tax return preparation training classes that Licensee has the option to conduct.

45. “Tax Promotion Period” means the period from December 26 through April 15 of each year during the Term.

46. “Tax Season” means the time period of January 2 through April 30 each year during the Term. If a Tax Season is identified to a particular calendar year (e.g., Tax Season 2008), it means January 2 through April 30 of that calendar year.

47. “Tax Services” means the professional tax preparation services provided by Licensee’s individual tax professionals.

48. “Term” means a three year period beginning on the Effective Date and ending at the close of business on July 31, 2010. “Term” also includes any renewal periods agreed under Section 2.1.

LICENSE AGREEMENT

THIS LICENSE AGREEMENT (the "Agreement") is entered into as of August 1, 2007 (the "Effective Date"), by Sears Holdings Management Corp., a Delaware corporation, as agent for SEARS, ROEBUCK AND CO., a New York corporation ("Company"), and H&R BLOCK SERVICES, INC., a Missouri corporation, operating H&R Block offices through its wholly owned subsidiaries ("Licensee").

Company and Licensee hereby agree as follows:

1. GRANT OF LICENSE

1.1 License for Operations.

(a) License. Company grants Licensee the non-exclusive privilege of conducting and operating, and Licensee shall conduct and operate a Licensed Business to offer and sell the Authorized Services only to customers in the United States and only through Designated Company Stores. Licensee shall be permitted to conduct the Licensed Business at any time during the Tax Season or such other times as may be mutually agreed to in writing by the parties.

(b) Tax Classes. Company additionally grants to Licensee the right at Licensee's option to conduct Tax Classes for the general public, but only in those Designated Company Stores where the Company Store General Manager from time to time authorizes the conduct of the Tax Classes. The amount and location of the space to be utilized for the Tax Classes shall be determined solely by the Company Store General Manager and such space shall be separate and distinct from the space required under this Agreement for the operation of the Tax Service. Terms related to the operation of Tax Classes in each location are to be agreed to between Company Store General Manager and Block District Manager. The Tax Classes shall be conducted under Licensee's own name, and Company's name will not be used in connection therewith. Each Tax Class will operate for a period of time determined by Licensee, but such period shall be completed no later than mid-December of each year in which the Tax Classes are authorized.

(c) Licensee's Franchisees. Licensee may operate the Licensed Business hereunder at various Designated Company Stores through operators franchised by Licensee or Licensee's affiliates but only after Licensee has submitted such franchise operated locations to Company for its approval. Licensee shall make the terms and conditions of this Agreement known to all such franchise operators and secure such franchise operators' written agreement to comply with all the terms and conditions hereof and to assume all of Licensee's obligations hereunder in the performance of the Licensed Business on Company's premises. Licensee agrees to include in any and all agreements with its franchisees a provision that Licensee and its franchise operators acknowledge that Company is a third party

beneficiary of all Licensee's rights and Licensee's franchise operators' obligations under the agreement between Licensee and its franchise operators which directly or indirectly pertains to the control, protection, and maintenance of Company's trademarks, service marks, trade names, and the good will pertaining thereto. Accordingly, Company shall have the right to require compliance by Licensee's franchise operators and to enforce directly against the franchise operators all provisions of the agreement between Licensee and its franchise operators which directly or indirectly pertain to Company's third party beneficiary rights hereunder. Such provisions shall pertain only to the control, protection and maintenance of Company trademarks, service marks, trade names, and the good will pertaining thereto, to the protection of the Designated Company Stores and their premises, and to the preservation of customer relationships in the Designated Company Stores, and are not to be construed as granting Company any right or power to control the details of the daily operation of the Licensed Business by Licensee's franchise operators unrelated to the control, protection and maintenance of Company trademarks, service marks, and trade names, all of the rights and powers being retained exclusively by Licensee or its franchise operators, as the case may be.

Licensee shall closely monitor the operations of such franchise operators and take all steps necessary to assure such franchise operators' compliance with the terms and conditions of this Agreement. If this Agreement is terminated for any reason as to one or more Designated Company Store locations, then any agreement between the Licensee and a franchise operator of Licensee to operate the Licensed Business at such location shall also terminate simultaneously and neither Licensee nor Licensee's franchise operators shall be entitled to damages, if any as a result of such termination. Notwithstanding the foregoing, Licensee shall at all times continue to be fully and primarily responsible and liable to Company for the faithful performance of all the terms and conditions of this Agreement by Licensee's franchisees.

(d) No Representations. Neither party makes any promises or representations whatsoever as to the potential amount of business either party can expect at any time from the operation of the Licensed Business. Each party is solely responsible for any expenses it incurs related to this Agreement, including expenses for hiring additional employees or for acquiring additional facilities or equipment.

2. TERM

2.1 This Agreement shall be effective throughout the Term unless terminated earlier under another provision of this Agreement. Following the Expiration Date, this Agreement may be renewed for successive one year terms upon mutual written agreement of both parties.

3. FEES

3.1 Amount. Licensee shall pay Company Fees as described in Schedule 3.1.

4. USE OF MARKS

4.1 Licensed Business Name. Licensee shall operate the Licensed Business under the Licensed Business Name or such other name as mutually agreed to by the parties. Licensee shall not use any Company Marks, except Licensee may use "Sears" as part of the Licensed Business Name, in a manner approved by Sears, in communications to customers and prospective customers of the Licensed Business, and to identify the Designated Company Store where the Licensed Business is located. In this regard, any exterior signage of the Designated Company Stores that identifies the Licensed Business shall use the Licensed Business Name. Notwithstanding the above, inside each Designated Company Store, in any mall location, and in the general conduct of the Licensed Business, Licensee shall be free to use forms, other materials and operations not referring to or using the Company name.

4.2 Other Communications. Except as permitted in Section 4.3 and for purposes of disclosure to the U.S. Securities and Exchange Commission, or as otherwise specifically approved by Company, Licensee shall not use the Company Marks for any other purpose, either orally or in writing, including use on any letterhead, checks, business cards, or contracts. Licensee will make all communications with persons or entities other than customers or potential customers of the Licensed Business only in Licensee's own name.

4.3 Use and Registration of Licensed Business Marks. Both Company and Licensee may jointly use the Licensed Business Name and Licensed Business Marks, and each party shall pre-approve any proposed Licensed Business Mark, other than the Licensed Business Name, which incorporates the Licensee Marks or trademarks, service marks or trade names owned by or licensed to the other party. Company acknowledges and will not contest or challenge Licensee's exclusive ownership of the Licensee Marks and Licensee acknowledges and will not contest Company's or its affiliates' exclusive ownership of Company Marks. Upon expiration or termination of this Agreement, each party shall immediately stop using all marks of the other party unless such post termination use is specifically authorized in this Agreement.

4.4 Prosecution of Claims Relating to Licensed Business Name. Neither party may prosecute or otherwise pursue any claim against any third party for infringement or misappropriation of the Licensed Business Name without the prior written consent of the other party, and such other party may withhold or condition its consent in its reasonable, good faith discretion.

4.5 Rights of the Parties. Neither party shall register or attempt to register any Mark of the other party. Each party shall execute all documents the other party or its affiliates requests to confirm such party's or its affiliates' ownership interest in any Licensed Business Marks or Marks of that party. Nothing in this Agreement

shall be construed to bar either party or its affiliates from protecting its rights in its Marks against infringement or misappropriation by any party or parties, including the other party, or from claiming rights in any intellectual property other than that as to which ownership is expressly provided for in this Agreement.

4.6 Injunctive Relief. Licensee acknowledges that the Company Marks possess a special, unique and extraordinary character, which makes it difficult to assess the monetary damage Company or its affiliates would sustain in the event of unauthorized use, and Licensee agrees that in the event of breach of this Section 4 by Licensee, there would be no adequate remedy at law and preliminary or permanent injunctive relief would be appropriate.

Company acknowledges that the Licensee Marks possess a special, unique and extraordinary character, which makes it difficult to assess the monetary damage Licensee or its affiliates would sustain in the event of unauthorized use, and Company agrees that in the event of breach of this Section 4 by Company, there would be no adequate remedy at law and preliminary or permanent injunctive relief would be appropriate.

4.7 Infringing Use. Each party shall notify the other party in writing by certified mail, return receipt requested, within five business days after it has knowledge of any infringement, misuse, dilution, acts of unfair competition or damaging acts related to the other party's Marks or any names, symbols, emblems, designs or colors which would be confusingly similar in the minds of the public to the other party's Marks, as well as any other patent, trademark, trade secret, service mark, trade name, trade dress, copyright, domain name, right of publicity or other intellectual property right in any way related to or affecting the Authorized Services. The other party or its affiliates may, at its sole expense, take such action as it determines, in its sole discretion, is appropriate. Each party shall cooperate and assist in such protest or legal action at the affected party's or its affiliates' expense. Neither party shall undertake any protest or legal action with respect to any Mark of the other party without first securing the other party's written permission to do so. For the purposes of this section, expenses shall include reasonable attorneys' fees and costs. All recovery in the form of legal damages or settlement shall belong to the party bearing the expense of such protest or legal action.

4.8 Good Will. Licensee recognizes the substantial good will associated with any and all Company Marks as described in this Section and acknowledges that all rights therein, and good will pertaining thereto, belong to Company or its affiliates. Licensee further acknowledges that all use of the Company Marks by Licensee shall inure to the benefit of Company and will not impair the validity or good will associated with the Company Marks.

Company recognizes the substantial good will associated with any and all Licensee Marks as described in this Section and acknowledges that all rights therein, and good will pertaining thereto, belong to Licensee or its affiliates. Company further acknowledges that all use of the Licensee Marks by Company

shall inure to the benefit of Licensee and will not impair the validity or good will associated with the Licensee Marks.

4.9 Survival. This Section 4, except for Section 4.1 and the last two sentences of Section 4.3 survives the expiration or termination of this Agreement.

5. OPERATIONAL OBLIGATIONS OF LICENSEE

5.1 Performance Standards. Licensee acknowledges that it has procedures and policies setting minimum standards of quality, performance and customer service. Upon request, Licensee shall provide copies of relevant policies and Licensee shall immediately advise Company of any proposed changes in its standards that would reasonably be expected to negatively impact Company. Without limiting Licensee's obligations under Section 5.8, Licensee shall observe no less than its minimum standards of quality, performance and customer service. Company may visit the Licensed Business area at any reasonable time during business hours to verify Licensee's compliance with its standards of quality, performance and customer service.

Licensee shall conduct its operations in a courteous and efficient manner and shall present a neat, business-like appearance, including following Licensee's dress code. Licensee and its Franchisees shall abide by all safety and security rules and regulations of Company in effect from time to time.

5.2 Business Conduct. Licensee shall also conduct its operations in an honest and ethical manner at all times, and in accordance with the level of professional care customarily observed by highly skilled professionals rendering services similar to those offered through the Licensed Business. In dealing with Company associates and Company customers, Licensee shall adhere to the highest ethical standards.

5.3 Hours of Operation. Licensee shall staff and keep the Licensed Business open for business and operated during the same business hours that the Sears retail store is open for business during Peak Season. During Non-Peak Season, the Licensed Business shall be open for business and operated a minimum of 42 hours per week, except that if Licensee operates a tax office within one mile of a Company Store with a Licensed Business, the Licensee shall keep the Licensed Business in such Company Store staffed and open for business and operated at least the same hours as such nearby Licensee tax office. Furthermore, if at the end of the Tax Season of any year during the Term, the change in the number of Licensee's completed and paid tax preparation returns during the Non-Peak Season in the Licensed Business as compared to the same period in the preceding year is three percent or more worse than the change in Licensee's complete and paid tax preparation returns in the Licensed Business during the entire Tax Season from the preceding year, Licensee shall resume open hours that coincide with Company's store open hours during the Non-Peak Season in all Tax Seasons remaining in the Term. For example, if Licensee's completed and paid returns from locations under this Agreement in Tax Season 2008 rose two percent from Tax Season 2007, but Licensee's completed and paid returns during the Non-Peak Season in Tax Season 2008 declined by one percent from the same year earlier

period, then Licensee must reinstate full Sears store hours in all Licensee offices operated under this Agreement in all periods of Tax Seasons 2009 and 2010. Notwithstanding the foregoing, the Licensed Business shall not be required to be open for business and operating during any period that the Company Store is closed.

5.4 Pricing. Company has no right or power to control the prices at which Licensee offers Authorized Services in the Licensed Business. Such right and power is retained by Licensee, but Licensee may, at its option, participate in Company's national store-wide sales and merchandise price off events.

5.5 Discount Policy. Licensee and Company shall cooperate to offer a Company employee discount for Authorized Services through Licensee's Employer Solutions Program. Company shall also use reasonable business efforts to enable Licensee to communicate, at Licensee's expense, the availability of the discount to Sears Holdings employees and its affiliates through W-2 inserts and messages.

5.6 Customer Loyalty Programs. Licensee may, in its discretion, accept certificates and coupons relating to customer loyalty programs that may from time to time be operated by Company. Company will provide Licensee with a list of all such loyalty programs and procedures for handling them. If Licensee agrees to accept any such certificates, Company shall reimburse Licensee for the face amount of all such certificates and coupons accepted, if Licensee has followed the prescribed procedures.

5.7 Customer Adjustment/Service. Licensee maintains a general policy of "Satisfaction Guaranteed" and also maintains a "Standard Guarantee" (as described in Section 5.19) to customers and shall promptly handle all complaints of and controversies with customers arising out of the Licensed Business in accordance with Licensee's policies. Licensee shall maintain files of customer complaints and their disposition in accordance with its standard procedures and, consistent with applicable laws and upon reasonable request, make the files available to Company.

5.8 Employee Standards. Licensee shall employ all management and other personnel needed to efficiently operate the Licensed Business and to comply with all laws and regulations. Licensee shall operate the Licensed Business solely with Licensee's employees, and not by using independent contractors, sub-contractors, sub-licensees or other workers not directly employed by Licensee, except for Franchisees permitted under Section 1.1(c) and certain temporary workers who obtained through an agency who are subject to Licensee's policies.

5.9 Licensee's Employees. Licensee has no authority to employ persons on behalf of Company. No employees of Licensee will be deemed to be employees of Company. Licensee has exclusive control over its labor and employee relations policies, and its policies relating to wages, hours, or working conditions of its employees. Licensee shall include in its policies all applicable restrictions and requirements of this Agreement that pertain to Licensee's operations or the conduct of its personnel. Licensee has the exclusive right to hire, transfer,

suspend, lay off, recall, promote, assign, discipline, adjust grievances and discharge its employees. But Company may request at any time, subject to applicable law, that Licensee remove from the Licensed Business any employee of Licensee, any employee of a Franchisee, or any Franchisee, who is objectionable to Company because of risk of harm or loss to the health, safety or security of Company's customers, employees or merchandise, whose manner impairs Sears' customer relations, or who fails to follow Licensee's employment policies. If Company objects to any of Licensee's or any Franchisee's employees, or any Franchisee, and Licensee decides not to remove such person, Company may terminate any affected location immediately upon written notice to Licensee.

During the term of this Agreement and for 90 days after termination or expiration thereof, neither party shall solicit or offer employment (other than through advertisements of general circulation) to any person who was an employee at a District Manager level or above of the other party.

5.10 Employee Compensation. Each party shall timely pay and is solely responsible for so paying, for all compensation of its employees and shall make all necessary deductions and withholdings from its employees' compensation. Each party shall timely pay, and is solely responsible for so paying or contesting in good faith all contributions, taxes and assessments, withholdings and all other requirements of Federal Social Security, Federal and state unemployment compensation, and Federal, state and local income tax laws on all compensation of its employees.

5.11 Compliance with Labor Laws. Licensee and Company shall comply with any other contract and all Federal, state and local laws, ordinances, rules and regulations regarding its employees, including minimum compensation, overtime and equal opportunities for employment, and specifically including the Federal Civil Rights Acts, Age Discrimination in Employment Act, Occupational Safety and Health Act, the Federal Fair Labor Standards Act, and the Americans with Disabilities Act, whether or not Licensee or Company, as applicable, is otherwise exempt from these acts because of its size or the nature of its business or other reason.

5.12 Compliance with Law.

(a) Licensee Compliance with Law. Licensee shall obtain all permits and licenses that are required under any Federal, state, or local law, ordinance, rule or regulation for Licensee's operation of the Licensed Business. Licensee shall comply and bear all costs associated with all applicable Federal, state and local laws, ordinances, rules and regulations, including rules and regulations of the Federal Trade Commission and those under the Americans with Disabilities Act in the operation of the Licensed Business. Licensee represents and warrants that Licensee and all of its suppliers, subcontractors and agents involved in the production or delivery of Authorized Services will strictly adhere to all applicable laws, regulations, and prohibitions of the United States and all countries where the Authorized Services are performed regarding the operation of their production facilities and their business and labor practices, including those concerning the

working conditions, wages and minimum age of the work force. Licensee further represents and warrants that the Authorized Services will not be performed, in whole or in part, by convict or forced labor.

(b) Company Compliance with Law. Company shall comply with all Federal, state or local laws, rules, ordinances and regulations and obtain all permits and licenses that are required under any Federal, state, or local law, ordinance, rule or regulation, including those under the Americans with Disabilities Act which are directly related to Licensee's operation of the Licensed Business in Company's stores. Company shall bear all costs associated with all applicable Federal, state and local laws, ordinances, rules and regulations, including rules and regulations of the Federal Trade Commission in the operation of its business.

5.13 Payment of Obligations. Licensee shall pay all license fees, business, use, sales, gross receipts, income, property or other applicable taxes or assessments that are charged or levied due to any act performed in connection with the Licensed Business, excluding, however, taxes and assessments on Company's income from Company Fee or applicable to Company's property. Licensee shall promptly pay all its obligations, including those for labor and material, and shall not allow any liens to attach to Company's property due to Licensee's failure to pay such obligations.

5.14 Licensee's Obligations. Neither party shall make any purchase or incur any obligation or expense in the name of the other party without such party's prior written consent.

5.15 Liens. Licensee shall not allow any liens, claims or encumbrances to attach to any Designated Company Stores due to any obligation of Licensee or its Franchisees. If any lien, claim or encumbrance so attaches or is threatened, Licensee shall immediately take all necessary action to cause such lien, claim or encumbrance to be satisfied and released, or Company may either terminate this Agreement or charge Licensee or withhold from the sales receipts retained under Section 9.3 all expenses, including attorneys' fees, incurred by Company in removing or resolving such liens or claims.

5.16 Overseas Labor Sourcing. Licensee shall not engage in the performance of professional tax preparation services outside of the United States for customers of the Licensed Business without prior written notice to Company.

5.17 Preparer. The name "H&R Block" or the name of the Licensee affiliate which is the preparer of the tax return, which name shall include "H&R Block," shall be placed upon each return prepared by the Licensee as the "preparer" of the return and the signature line on the return shall be completed in such form as will comply with Internal Revenue Service rules, instructions and practices. Licensee shall not use the name "Sears" nor allow it to appear in any manner on any tax returns prepared by Licensee.

5.18 Preparer's Responsibilities. Licensee shall advise each of its tax return preparers of the preparer's responsibilities under the Internal Revenue Code and applicable regulations accordingly to standard training methods.

5.19 Licensee's Guarantee to Customers. Licensee shall make available to each of its customers at the Licensed Business the guarantee that if Licensee makes any error in preparing a client's tax return that costs them interest or penalty on additional taxes due, while Licensee does not assume the liability for the additional taxes, Licensee will pay the resulting interest and penalty. Under no circumstances will Sears assume, be liable for or pay any penalties, interest, assessment or claims of any kind arising out of any actual or alleged error or omission in any tax return prepared by Licensee.

5.20 Quotation of Charges. All charges for the Tax Services will be quoted to the customer during the interview. Licensee shall not charge customers for estimates or quotes for tax preparation services. However, Licensee shall not be prevented from charging customers for selected tax services that require the preparation of estimated tax return information for the customer or other tax advice.

5.21 Copies of Tax Returns; Taxpayers' Files. Licensee agrees that it will retain copies of all tax returns prepared by it in such manner and for such period of time as is consistent with Licensee's maintenance of tax returns prepared for Licensee's retail customers outside of the Licensed Business. Licensee shall at all times retain sole rights to its customers files.

6. LICENSED BUSINESS AREA

6.1 Locations.

(a) Company grants Licensee a right of first opportunity to operate a Licensed Business in any Company Store in which Company decides to make space available for a tax preparation services business. In extending such right to Licensee, Company shall provide a list to Licensee by June 1 each year during the Term containing (i) each Company Store and the location of such Company Store, (ii) whether each Company Store is available for a tax preparation licensed business, or if not available for a tax preparation licensed business, the reason for such unavailability, and (iii) the location and area of the space intended to be made available to Licensee for the Licensed Business.

Company's list provided above shall make available to Licensee a right to operate a Licensed Business in 100% of Company Stores in which Company has space available, in its sole business judgment, for a tax preparation services licensed business office. If any Company Store is omitted from Company's list due to unavailability of space, Company will, at Licensee's request, discuss with Licensee the store's space constraints and any alternatives that might enable Company to find space

available for the Licensed Business in that store. Except as otherwise provided herein, Licensee agrees to operate the Licensed Business, during each Tax Season during the Term, [***] . Licensee shall notify Company of the Company Stores where Licensee and Licensee's franchisees shall operate the Licensed Business during the Tax Season (the Designated Company Stores), and such Designated Company Stores shall be set forth in a Schedule 1.1B no later than: (i) August 1 prior to the start of the Tax Season, or (ii) if Company does not provide the list by June 1, the date that is 60 days after the date Licensee receives such list from Company. Licensee and Licensee's franchisees must elect to accept such location by August 1 (or such later date as is 60 days after the date License received such list from Company), or Company will be free to grant another firm (tax preparation services or otherwise) the right to operate a Licensed Business in that store, in lieu of Licensee; provided, however, that in the event such location is not identified to Licensee as being available by August 1, Company may not grant another tax preparation firm the right to operate in that store that Tax Season and such store will be available to Licensee the subsequent Tax Season. Once declined (except as provided above), the right of first opportunity is lost to Licensee as to the offered store for the remainder of the Term. The commitment of Licensee set forth in Section 6.1(a) applies only to Licensee Owned Retail Territories and only to Company Stores. Licensee shall offer the opportunity to its Franchisees to offer Authorized Services at Company Stores in such Franchisee's territories, but Licensee does not guarantee or warrant that any, or any certain number of Franchisees, will do so.

(b) Notwithstanding the provisions of Section 6.1(a) of this Agreement, Licensee shall be obligated to place on the list of Designated Company Stores any Company Store at which Licensee completed (and received payment for) [***] during the immediately preceding Tax Season. Company shall be obligated to place on the list of available Company Stores, any Company Store at which Licensee completed (and received payment for) at least [***] , except Company Stores closed under Section 14.5 and Company Stores that have been remodeled or reconstructed, with the result that there is not available space for the Licensed Business (or for any other licensed business that requires a similar amount of space as the Licensed Business requires).

(c) Notwithstanding the provisions of Section 6.1(a) of this Agreement, Licensee shall not be required to operate the Licensed Business at any Company Store at which Licensee did not complete (and receive payment for) [***] . Such preceding Tax Season must be no earlier than Tax Season 2008. By way of example, [***] . Locations at which Licensee does not operate the Licensed Business under this Section 6.1(c) shall nevertheless count toward the [***] requirement of Section 6.1(a).

(d) Licensee may decide to open a location offering Authorized Services in a public concourse of any Shopping Mall where Company operates a Company Store (a "Mall Location") only if:

(i) Company has notified Licensee that it cannot provide Licensee space meeting the requirements of this Agreement; or

(ii) Company has advised Licensee that it has space meeting the requirements of this Agreement for Licensee, but Licensee nevertheless decides to open a location offering Authorized Services in a Mall Location.

If either of these events occurs, Licensee shall arrange to lease the Mall Location for the Tax Season and the Mall Location will be operated by Licensee within the terms of this Agreement, as applicable, including receiving Company Fees. If the Mall Location is brought under the terms of this Agreement, [***] . Company shall notify Licensee in writing within thirty days after Company receives written notice from Licensee that Licensee intends to open a Mall Location whether it will bring that location under the terms of this Agreement. If Company does not notify Licensee in writing that it will has exercised such option to bring the location under the terms of this Agreement, Licensee shall be free to provide Authorized Services from such location without any obligation to Company hereunder. In addition to the right of Licensee to establish Mall Locations as set forth herein, the parties will cooperate with one another to transition locations from inside Company stores to Mall Locations as appropriate and depending on the availability and suitability of Mall Locations. [***] .

(e) Any Mall Location operated under subsection (ii) of Section 6.1(d) which Company elects to bring under the terms of this Agreement that exceeds [***] shall be handled as follows: [***] . Company shall notify Licensee in writing within thirty days after Company receives written notice from Licensee that Licensee intends to open a Mall Location whether it will bring that location under the terms of this Agreement.

(f) Company shall provide space for the operation during the Tax Season within each Designated Company Store covered by this Agreement in accordance with the specifications in Schedule 6(f). Such space shall be used solely for the conduct of the Licensed Business during the Tax Season. In the event Company does not provide space meeting the specifications on Schedule 6.1(f) in all material respects (including, but not limited to the size of the tax service office), Licensee shall provide written notice to the Company Store Manager of such deficiencies. Company shall promptly commence cure of any such deficiencies and shall thereafter work to cure such completion in as expeditious a manner as is reasonably possible under the circumstances. In the event that Company does not correct such failure or promptly commence to cure

within a reasonable period of time, then Licensee may withdraw from the locations at which Company does not comply without further liability by either party to the other. Any location from which Licensee withdraws pursuant to this Section shall nevertheless be included in the calculation required by Section 6.1(a) for the then-occurring (or next succeeding, if withdrawal occurs outside of a Tax Season) Tax Season as if such office were still being operated as part of the Licensed Business.

(g) Company shall not at any Designated Company Store provide space or permit operations or advertising by any other tax preparation services provider, except as set forth below. This prohibition shall also apply to any Company Store that is located at or adjacent to any Mall Locations where Licensee operates the Licensed Business under Sec. 6.1(d). However, if Licensee terminates a Licensed Business located in a Designated Company Store or ceases operations at any Mall Location (and does not enter into a Designated Company Store within such mall), and so long as Licensee's termination of the location was not based on Company's failure or default under Section 14.3 or 14.4, Licensee shall have no further rights with respect to such location during the Term and Company may offer or contract with any other party to operate a tax preparation business in that Designated Company Store.

(h) The costs associated with preparing and constructing the Licensed Business Area shall be divided between the parties as set forth on Schedule 6.2.

6.2 Existing Locations. For any Designated Company Stores listed on Schedule 1.1B, wherein the Licensed Business was in operation on or before the Effective Date, the Licensed Business shall continue to be located in the areas where it is located on the Effective Date, subject to the other terms of this Agreement (including Section 6.8).

6.3 Additional Locations. For any Additional Location, Company shall submit no later than June 1 to Licensee a Block Plan complying with the specifications of Section 6.1. The space will be comparable in size to the locations occupied by Licensee in existing stores in that particular format. Licensee is solely responsible for providing final plans for the Licensed Business area in the Additional Locations. The expense of preparing the initial space assigned to the Licensed Business in the Additional Location will be divided between the parties as described on Schedule 6.2. All improvements or installations that vary from Company's standard specifications will be at Licensee's sole expense.

6.4 Right of First Opportunity for Other Sears Stores. Company shall grant Licensee a right of first opportunity to operate a Licensed Business in all Other Sears Stores in which Company decides to make space available for a tax preparation services business, and Licensee may agree to operate a Licensed Business in any such Other Sears Stores; provided the parties can successfully negotiate a contract governing such Licensed Business. If Licensee does not elect to accept such

location by August 1 (or such later date as is 60 days after the date License received the list of Other Sears Stores), Company will be free to grant another firm (tax preparation services or otherwise) the right to operate a Licensed Business in that store, in lieu of Licensee; provided, however, that in the event such location is not provided to Licensee by August 1, Company may not grant another firm the right to operate in that store and such Other Sears Store will be available to Licensee the subsequent Tax Season. Once declined, the right of first opportunity is lost to Licensee as to the offered store for the remainder of the Term, unless Company failed to provide such location to Licensee by August 1, in which case Licensee shall have the right of first opportunity the subsequent Tax Season.

6.5 Improvements. All permanent improvements to the Licensed Business Area become the Company's property at the expiration or termination of this Agreement. At the expiration or termination of this Agreement, or if Licensee vacates or abandons the Licensed Business, Licensee shall convey to Company, without charge, good title to such improvements free from all liens, charges, encumbrances and rights of third parties.

6.6 Commencement of Operations. Company shall make the Licensed Business Area available to Licensee in accordance with the specifications of Schedule 6.1(f) within six days prior to the commencement of Tax Season (or 10 days prior to commencement of the Tax Season, for Designated Company Stores where the Licensed Business will be operated in permanent, built-in offices), and Licensee shall have the Licensed Business fully operational at each Designated Company Store by the start of the Tax Season provided, however that Company has made the Licensed Business Area ready for Licensee as provided above. If either party fails to comply with the timeline set forth above, the other party may, at its option, terminate the location from this Agreement and have no further obligation to the other party, in which case the party who failed to comply with the timeline shall reimburse the other party within ten days after receipt of an invoice for any cost of constructing the Licensed Business Area and of restoring the space back to its condition immediately before the start of construction.

6.7 Condition of Licensed Business Area. Licensee shall, at its expense, keep the Licensed Business Area in a thoroughly clean and neat condition and shall maintain Licensee's Equipment in good order and repair. Company shall provide routine janitorial service in the Licensed Business Area, consistent with the janitorial services regularly performed in the Designated Company Store. Occupying more than the space allocated by the Block Plan, and failure to withdraw from such additional, unallocated space within 24 hours after receiving written notice from Company, is grounds for termination of the Licensed Business at a Designated Company Store, or for termination of this Agreement if the uncorrected situation exists at multiple Designated Company Stores.

6.8 Changes of Location/Remodeling. Company shall provide the Licensed Business Area consistent with the specifications set forth in Schedule 6.1(f). Company has the right, in its sole discretion, to change the location, dimensions and amount of

area of the Licensed Business from time to time during the Term, in accordance with Company's judgment as to what best serves the general good of the Designated Company Stores; provided, however that Licensee may refuse such relocation and such location shall nevertheless count toward the requirements of Section 6.1(a). The specifications for any such relocated Licensed Business Area shall be as set forth in Schedule 6.1(f). However, Company shall use reasonable efforts not to change the location during Tax Season. If Company changes a location during Tax Season, Company shall place signage acceptable to Licensee notifying customers of such change and directing them to the new location. If Company decides to change the location of the Licensed Business during the Tax Season, Company shall move Licensee's Equipment to the new location and prepare the new space for occupancy by Licensee and the expense will be borne solely by Company. If Company decides to change the location of the Licensed Business outside of the Tax Season, Company shall move Licensee's Equipment to the new location and prepare the new space for occupancy by Licensee and the expense will be allocated between the parties as described on Schedule 6.2. If Licensee initiates or requests a change in location, dimensions or amount of space, Licensee shall bear all expense of moving Licensee's Equipment and the parties will share the expense of preparing the new space for occupancy as described on Schedule 6.2.

If Licensee agrees that a Licensed Business Area should be remodeled and subsequently terminates or abandons the Licensed Business Area prior to the date Company has made such area ready for occupancy by Licensee, Licensee shall reimburse Company for all Company's costs incurred in planning, preparing, constructing and improving the Licensed Business Area, including the cost to restore such area to its condition immediately prior to the commencement of construction.

6.9 Electric/HVAC. Company shall furnish, at reasonable hours, and except as otherwise provided, without expense to Licensee, reasonable heat, light, air conditioning and electric power for the Licensed Business as described in more detail in Schedule 6.1(f), except when prevented by strikes, accidents, breakdowns, improvements and repairs to the heating, lighting and electric power systems or by other causes beyond Company's control. Company will not be liable for any injury or damage whatsoever that may arise from Company's failure to furnish such heat, light, air conditioning and electric power, regardless of the cause of such failure. Licensee expressly waives all claims for such injury or damage.

6.10 Telephone Service. Company shall provide a single Direct Inward Dial number for the Licensed Business Area in each Designated Company Store and Company shall bear the cost of outbound local and toll-free calls and compatible phone hardware for Licensee. Company shall pay the entire cost of the installation of the telephone equipment necessary to provide such service. If Licensee requires additional phone lines to be installed in a Licensed Business Area, Licensee shall arrange with the appropriate telephone company for such installation and all installation costs and monthly service associated with any such additional phone

lines are to be paid by Licensee. Licensee shall arrange with the appropriate telephone company for direct billing to Licensee of all long distance calls made in the Licensed Business location. Notwithstanding the foregoing, Licensee may install and maintain, at its own cost and expense, one or more separate data lines to be used solely for the purpose of transmitting sales and other data from the Licensed Business location to Licensee's own computer data system. Licensee shall arrange with the appropriate telephone company for such installation, and all installation costs, local or long distance charges, and monthly service fees associated with any such additional data lines are to be paid by Licensee. Licensee shall arrange with the appropriate telephone company for direct billing to Licensee of all charges associated with the data lines in the Licensed Business locations. The access numbers for such data lines shall not be advertised, publicized or otherwise disclosed to customers of the Licensed Business. Upon expiration or termination of this Agreement, Licensee shall retain ownership of the telephone numbers associated with the data lines but shall immediately notify the telephone company to terminate service on the data lines at each Licensed Business location.

Licensee has implemented an internal policy to establish the number of telephone lines required in a tax office based upon the number of returns prepared in that office in the prior Tax Season. Company agrees to make telephone service available based upon Licensee's policy, which is as follows:

Number of Tax Returns	Number of Lines Needed
Less than 750	1 main listed line
751 – 1,500	1 main listed line, 1 hunting line
1,501 – 2,250	1 main listed line, 2 hunting lines
2,251 – 3,000	1 main listed line, 3 hunting lines
3, 000 and over	1 main listed line, 3 or more hunting lines

6.11 Telephone Numbers. All telephone numbers that Licensee uses in the Licensed Business are Company's property and Licensee shall keep those numbers separate from phone numbers that it uses in its other business operations. Upon expiration or termination of this Agreement, Licensee shall immediately stop using such numbers and shall transfer the numbers to Company (or Company's designee), and Licensee shall immediately inform the telephone company of the transfer.

6.12 Telephone Directory Listings. Licensee shall obtain Company's approval before placing any telephone directory listings for the Licensed Business, whether in the white pages, yellow pages or electronic media, except for listings consisting only of the Licensed Business Name and its address at the Designated Company Store.

6.13 Access to Licensed Business Area. Licensee may access the Licensed Business area whenever the Designated Company Store is open to customers for business and at other reasonable times as the Designated Company Store's General

Manager approves. Licensee shall give Company keys to the Licensed Business Area. Company may access the Licensed Business for legitimate business purposes at any time following reasonable notice to Licensee and so as to minimize interference with Licensee's Licensed Business, except in the case of an emergency.

6.14 Effect of Store Leases. If any Designated Company Store is leased to Company or is the subject of an easement agreement, this Agreement is subject to all of the terms and conditions of such lease or easement agreement. If any such lease terminates by expiration of time or otherwise, this Agreement will immediately terminate with respect to the Licensed Business area, without liability for damages as a result of such termination.

6.15 Waiver of Property Damages. Licensee waives all claims that it may have or acquire against Company and any other person or entity operating a Designated Company Store for any property damage occurring at the Designated Company Stores that results from any of the following:

(a) the actual or alleged negligence, act or omission of any tenant, licensee or occupant of the premises at which the Licensed Business is located;

(b) any damage caused by any casualty from any cause whatsoever, including smoke, fire, water, snow, steam, gas or odors in or from any Designated Company Store or its premises except to the extent caused by Company's negligence;

(c) the leaking of any plumbing, or because of any accident or event which may occur in any Designated Company Store or on its premises, except to the extent caused by Company's negligence;

(d) the actual or alleged acts or omission of any janitors or other person in or about any Designated Company Store or on its premises, except to the extent caused by Company's negligence; or

(e) from any other such cause whatsoever, except for damage caused by Company or such other operating entity's negligence.

7. PUBLIC COMMUNICATIONS

7.1 Licensee Advertising. Licensee shall advertise and actively promote the Licensed Business. Licensee shall at all times adhere to Company Licensed Business Marketing Manual provided to Licensee, as it may be updated from time to time ("Marketing Manual"). Prior to use in connection with the Licensed Business, Licensee shall submit to Company (a) all signs and advertising copy (including sales brochures, telemarketing scripts, newspaper advertisements, radio and television commercials, and internet advertising), and (b) all promotional plans and devices (including coupons, contests, events and giveaways). Licensee shall

not use any such advertising material, promotional plan or device without the prior written approval of Company. Company has the right, in its sole discretion, to disapprove or require modification of any and all such advertising forms and other materials containing Company's Marks. The parties acknowledge that Licensee shall be permitted to use any ads or materials which do not contain Company's Marks in its sole discretion, except that Licensee shall not use or distribute in the Licensed Business any ads or materials that disparage Company or its services or products, or that promote Company's competitors. Company shall have the right to audit at its expense, Licensee's advertising and promotional materials and practices at any time to assess Licensee's compliance with this Agreement, the Marketing Manual and applicable legal requirements. Any unauthorized use of the Company Marks by Licensee, including the unauthorized use by Licensee of any Company Marks as part of an electronic address, domain name, web site or search engine, shall constitute a breach of this Agreement and an infringement of the rights of Company in and to the Company Marks.

During the period from December 1 through April 15 of each year during the Term, Licensee shall engage in Company Advertisements. Specifically, Licensee shall air Company Advertisements (i) designed to reach [***] or (ii) equal to [***] . Licensee's goals for [***] (referenced in (i) above) will be based on the number of Designated Company Stores with Licensed Business offices each Tax Season, as follows:

0-599 stores:	0
600 - 649 stores:	750
650 – 714 stores:	1,000
715 + stores:	1,200

All costs relative to advertisements will be borne by Licensee. To the extent complete, before the start of each Tax Season, Licensee shall provide Company with its marketing and advertising plan (including scheduling, time slots, programs, and advertisement varieties) for the Tax Season, including the use of Sears taglines.

Licensee agrees that at Company's request and at Company's expense it will at least once each year undertake a direct mail campaign to customers of the Licensed Business during the prior Tax Season to encourage such customers to return to the Licensed Business for personal tax preparation during the pending Tax Season. Company shall notify Licensee not later than September 1 of its request to undertake the direct mail campaign. The direct mail campaign shall be mailed to customers [***] . Licensee may, but shall not be required to, offer such customers a discount or other promotional offer to such customers as a part of the direct mail campaign. Licensee shall not be obligated to include in such direct mail campaign any customer who engaged Licensee at any Company Store in which Licensee will not operate for any reason during the pending Tax Season. Further, Licensee will not knowingly directly or through a third party contact any

customer of the Licensed Business for the purpose of directing such customer to one of Licensee's offices not in a Company Store, unless such customer was a customer of a Company Store in which Licensee will not operate for any reason during the pending Tax Season. Licensee shall cross-check each list used for direct mailings against its list of customers of the Licensed Business, to prevent such prohibited contacts. Licensee shall also send out an internal message to all its field district managers each year during the Term to remind them of the prohibition against contacting a customer of the Licensee Business to direct them to one of Licensee's offices. Company acknowledges that unsolicited customer migration between Company Stores and Licensee's other offices occurs and is not a violation of this Section 7.1.

7.2 Other Publicity. Neither party shall issue any publicity or press release involving or affecting the other party or the Licensed Business, without the other party's prior consent, except as required by law. Neither party shall refer to this Agreement, the Licensed Business or the other party in any prospectus, annual report or other filing except to the extent required by Federal or state law or by the U.S. Securities and Exchange Commission. Licensee shall always follow Company's written policies in the Marketing Manual regarding interacting with the media.

7.3 Forms. At Company's request at any time Licensee will provide Company copies of any or all Forms used in the Licensed Business. Licensee and Company shall discuss any reasonable business request by Company to modify such Forms within 30 days after receiving Company's written request for such modifications. Licensee shall be solely responsible for the adequacy of such Forms and Company shall have no liability for any suggested changes proposed by Company which Licensee in its sole discretion adopts. Company acknowledges that the Forms constitute Licensee's confidential business information, and Company agrees that it will not disclose the Forms to any third party or use for its own benefit or permit others to use any such materials and that it will return such materials to Licensee immediately upon request.

8. LICENSED BUSINESS EQUIPMENT

8.1 Licensee's Equipment. At its own expense, Licensee shall install all Licensee's Equipment. Licensee's Equipment, and its size, design and location, is at all times subject to Company's approval.

8.2 Licensee-Provided POS Terminal. At its expense, Licensee shall furnish a Licensee POS Terminal for use in the Licensed Business to accept the Sears Card and other forms of payment through a third party processor selected by Licensee. Licensee shall pay for all equipment, including any necessary peripheral equipment (e.g. terminals, modems and printers) required and for all installation and phone line charges for such terminal.

9. TRANSACTIONS AND SETTLEMENT

9.1 Check Cashing.

(a) Company may, for a fee to the customer, cash refund anticipation loan checks and refund anticipation checks bearing the H&R Block name issued by participating banks. Licensee will post signs in participating locations disclosing the availability of check cashing services at participating Company stores. Prior to cashing any such check, Company will call the number set forth on Schedule 9.1(a) each time. Company shall not advertise by name check cashing of any competing tax preparation firm's checks in Designated Company Stores.

(b) In addition to the posting of signs in participating locations referred to above, brochures advising taxpayers that refund anticipation loan checks and refund anticipation checks may be cashed at and by participating Company locations may be included in the forms packet given by Licensee to each customer. In response to specific inquiries made by Licensee clients who have received refund anticipation loan checks or refund anticipation checks, Licensee will advise such clients that Company offers a check cashing service accepting refund anticipation loan checks and refund anticipation checks.

(c) Company shall be solely responsible for compliance with any licensing requirements and regulations that may apply to check cashing services.

(d) Licensee agrees to review annually with Company those losses, if any, sustained by Company due to forged or unauthorized endorsements on refund anticipation loan checks and/or refund anticipation checks. In addition, Licensee shall notify Company promptly, in the manner set forth herein, in the event that Licensee experiences any theft, misappropriation or loss of any type of refund anticipation check and/or refund anticipation check (a "Fraud Event"). Licensee shall send written notice to Company of any Fraud Event ("Notice of Fraud"), which shall set forth the specifics of the Fraud Event. Such Notice of Fraud shall be sent either via facsimile

or email to the individuals identified by Company prior to the start of each Tax Season.

(e) Notwithstanding anything to the contrary in this Agreement, Licensee shall indemnify, hold harmless and reimburse Company promptly for all refund checks paid out by Company that are the subject of any Fraud Event; provided, however, that Licensee shall not be obligated to reimburse Company for checks cashed by Company (i) if Company did not verify the check as provided in Section 9.1(a) or (ii) more than 24 hours after receipt of the written Notice of Fraud by Company. Company agrees that Company will not seek recovery related to any Fraud Event from banks participating in Licensee's electronic refund and refund anticipation loan programs.

(f) Notwithstanding any obligation of Licensee set forth in Section 9.1(a), 9.1(b) or otherwise in this Agreement, Licensee shall not be required to promote the check cashing services of Company in any location where the following conditions have been met:

(i) Licensee notifies the Company Director of Business Development in writing that Licensee reasonably believes that the Check Cashing Fee charged by Company is not competitive with fees charged by other commercial check cashing services available in the community served by the Designated Company Store and such belief is based upon a benchmarking survey conducted by Licensee of at least three commercial entities that provide a reasonable representation of check cashing fees charged in the local geographic area; and

(ii) Within five business days from receipt of the notice by the Store Manager, Company does not change its fee to such amount as Licensee reasonably believes is competitive with fees charged by other commercial check cashing services available in the community served by the Company store.

In the event that Licensee ceases promotion of Company check cashing services pursuant to this Section 9.1, Company shall have the right to post its own signage regarding the check cashing services provided by Company.

9.2 Charge Cards.

(a) Sears Card. Subject to the terms and conditions outlined on Schedule 9.2A (the "Citibank Merchant Agreement"), which is attached hereto and incorporated herein, Licensee shall accept the SearsCard®, Sears Premier Card®, SearsCharge Plus^{SM}, Sears MasterCard®, Sears Gold MasterCard®, Sears Premier Gold MasterCard® and The Great Indoors® Gold MasterCard® or any future Sears-branded private label charge card (each, a "Sears Card") issued by any bank authorized by Company to bear the Sears name or a Company affiliate's name for payment for Authorized

Services. Licensee shall submit all Sears Card transactions processed through Company's POS system (and Company's credit card processor) to Company, in the manner that Company designates, for settlement with the issuing bank, under the terms of Schedule 9.2A.

(b) Third Party Credit Cards. Licensee may, in its sole discretion, also accept credit cards other than Sears Cards (such cards that Licensee accepts hereinafter referred to as "Third Party Cards"). Licensee is responsible for all interchange fees due and owing on all Third Party Card transactions. Licensee shall process all Third Party Card transactions through Licensee's POS system, and submit all Third Party Card charges to Licensee's credit card processor for settlement with the issuing bank, under Licensee's separate Merchant Agreement with the issuing bank. All losses sustained by Licensee as a result of any non-payment by a Third Party Card cardholder or chargeback by an issuer of a Third Party Card account shall be borne solely by Licensee.

(c) Transactions. Subject to all of the terms and conditions of this Agreement, including Company's rights under Section 9.7, Company shall pay all sums due Licensee on each sale of Authorized Services made by Licensee to a cardholder that is charged to a Sears Card or Third Party Card account (each a "Credit Card Sale") in accordance with Section 9.3. Licensee hereby grants Company the right to accept payments and settlements by issuers for each Credit Card Sale that is processed through Company's credit card processor on Licensee's behalf, as appropriate. Licensee shall accept the Sears Card and Third Party Cards at all Licensed Business locations authorized under this Agreement for the purchase of Authorized Services, and shall require those transactions to be in United States dollars. Licensee shall not discourage or attempt to suppress or discriminate against the use of any Third Party Card or the Sears Card by any person whose name is on the card or any other authorized user of such card. Licensee may not directly or indirectly distribute or solicit any customer applications or referrals for any Third Party Cards in or through the Licensed Business.

9.3 Settlement. A settlement between the parties will be made monthly for all Licensed Business transactions during such period, in accordance with Company's customary accounting procedures. For Licensed Business transactions that are processed with a Sears Card through Company's POS system, Company will make payments weekly for receipts processed in the prior week period. The month-end settlement will include the weekly payment for Sears Card transactions in the last week of the fiscal month, along with other month-end deductions and reconciliations. Company shall use good faith efforts to move toward reporting (in addition to paying) on a weekly basis Licensee's transactions processed with a Sears Card through Company's POS system.

9.4 Licensee Reports. At Company's request, Licensee shall provide Company

reports of sales by the Licensed Business and Company Fees paid, together with any other information Company may reasonably require, in the manner and form reasonably requested by Company (so long as such format is necessary and not overly burdensome to Licensee) and prepared in accordance with generally accepted accounting principles, excluding, however, Licensee Customer Information that cannot lawfully be disclosed. If requested by Company, Licensee shall provide a copy of Licensee's parent company's Annual Report or Form 10-K, or if that is not available, Licensee's other annual financial report audited by a Certified Public Accountant, including consolidated Income Statement and Balance Sheet. Company shall not disclose to any third parties any such information that is not available to the public without Licensee's prior written consent. Licensee's preliminary reporting will include weekly returns by store and bi-weekly (once every two weeks) reports of New Clients by store; however, the parties acknowledge that final reports may vary slightly based on end of season reporting information.

9.5 Company Audit Rights. Licensee shall keep and maintain, in accordance with generally accepted accounting principles, books and records that accurately reflect the Gross Sales and Net Sales of the Licensed Business, the expenses that Licensee incurs in performing under this Agreement and payment of Company Fees Company may at any reasonable time audit such books and records at its expense (subject to Section 9.6(b)). Licensee shall, at its expense, make all such books and records available for Company's audit. Licensee shall not invoice Company for Licensee's labor costs associated with such audit. In the event Company receives information providing reasonable cause for inquiry to whether Licensee has migrated customers in violation of Section 7.1,, Company may audit Licensee's records related to its direct mail marketing programs for the sole purpose of verifying compliance with Licensee's obligation not to directly and knowingly migrate customers as set forth in Section 7.1, but only to the extent mutually agreed by both parties to be permissible by applicable laws and regulations and not more than once per fiscal year. If Company cannot access information that is necessary for the audit due to legal restrictions on disclosure of such information, yet such information can be legally disclosed to a qualified third party, then Company may use the services of such a qualified third party, selected by mutual agreement of the parties, to perform those audit activities, and Company shall bear all of that third party's fees and expenses. Each determination in this Section 9.5 of whether Licensee is legally permitted to disclose information will be made by mutual agreement.

9.6 Licensee Underreporting. If an audit reveals that Gross Sales were under-reported by more than three percent of the total Gross Sales reported by Licensee, then Licensee shall reimburse Company for all costs incurred in performing such audit, and Licensee shall, at its option:

(a) pay:

(i) Company Fees on all estimated unreported Gross Sales for each year, as calculated by annualizing the rate by which Gross Sales were under-reported in the audit sample, and

(ii) an administrative fee calculated by multiplying the annualized underpaid Company Fees by the percentage of under-reported Gross Sales; or

(b) pay:

(i) for a complete audit by Company or its designee of Licensee's books and records relating to Gross Sales for the audit sample year and any other years under this Agreement,

(ii) Company Fees on all actual unreported Gross Sales as revealed through the audit, and

(iii) an administrative fee for each year audited, calculated by multiplying the amount of unpaid Company Fees for such year by the percentage by which Gross Sales were under-reported in the audit sample year.

If an audit reveals under-reported Gross Sales, Licensee's sales will be subject to a subsequent audit (at Licensee's expense) approximately one year after the initial audit. If the subsequent audit reveals that Gross Sales were under-reported by more than three percent of reported Gross Sales, Licensee shall pay Company Fees on such Gross Sales as per the above except that, due to the increased expenses incurred by Company in continuing to monitor Licensee's future sales reports, the administrative fee will be doubled.

All under-reported sales equal to or less than three percent of reported Gross Sales will be reimbursed to Company, as appropriate, based on the actual amounts of such under-reports. Further, Company may also collect from Licensee interest on all unpaid Company Fees for the period from the close of the year in which the corresponding sales were made until the date of payment of such Company Fees. Interest will be at the prime rate (as published in the *Wall Street Journal* as of the date of the completion of the audit) plus two percent. This Section 9.6 will survive termination or expiration of this Agreement.

9.7 Company Rights of Recoupment and Setoff. Company may setoff against any payments due Licensee under this Agreement any liability or obligation that Licensee may have to Company. Licensee must object to such setoff in writing within 15 days of written notice of Company's setoff. Licensee shall pay Company any Licensee liabilities or obligations that remain unpaid after Company's setoff promptly upon demand. This Section 9.7 will survive expiration or termination of this Agreement.

10. CONFIDENTIALITY; CUSTOMER INFORMATION

10.1 Confidential Business Information.

(a) Company Confidential Business Information. All Company Confidential Business Information is the sole property of Company. Licensee will claim no rights in any Company Confidential Business Information. Nothing in this Agreement bars Company from preventing any misappropriation of any Company Confidential Business Information, including by Licensee.

(b) Licensee Confidential Business Information. All Licensee Confidential Business Information is the sole property of Licensee. Company shall claim no rights in any Licensee Confidential Business Information. Nothing in this Agreement bars Licensee from preventing any misappropriation of any Licensee Confidential Business Information, including by Company.

10.2 Confidential Treatment and Use Restrictions. Company Confidential Business Information and Licensee Confidential Business Information are referred to collectively as "Proprietary Information". The party receiving Proprietary Information (the "Recipient") from the other party (the "Disclosing Party") shall hold the Proprietary Information of the Disclosing Party in utmost confidence and shall not disclose it to any third party. Proprietary Information may be disclosed only to Representatives of the Recipient who have a need to know that Proprietary Information for performing their duties in connection with this Agreement. The Recipient shall use and reproduce such Proprietary Information only as necessary for performing its obligations under this Agreement. But Proprietary Information is not subject to confidential treatment if it:

(a) is known by the Recipient, before the first disclosure by the Disclosing Party, without any obligation to hold it in confidence;

(b) is or becomes available to the public without breach of this Section 10; or

(c) is independently developed by the Recipient without use of the Disclosing Party's Proprietary Information.

If, in the reasonable opinion of its legal counsel, a Recipient is required to disclose any Proprietary Information of the Disclosing Party in response to a valid subpoena or order of a court or other government agency of competent jurisdiction or other valid legal process, the Recipient shall notify the Disclosing Party in writing a reasonable time prior to each disclosure and shall use reasonable efforts to cooperate with the Disclosing Party to enable it to obtain an appropriate protective order or other restrictions on disclosure.

10.3 Licensee Customer Information. Licensee Customer Information is confidential and owned exclusively by Licensee. Licensee shall use and protect Licensee

Customer Information in accordance with Licensee's privacy policies and applicable law. Licensee shall not disclose any Licensee Customer Information to Company, except as permitted by law. In the event of any inadvertent receipt of Licensee Customer Information by Company under this Agreement, Company shall immediately return such information to Licensee.

10.4 Company Customer Information. Company Customer Information is confidential and owned exclusively by Company or Citibank (or any other bank issuing a Sears-branded credit card). Company shall use and protect Company Customer Information in accordance with Company's privacy policies and applicable law. Company shall not disclose any Company Customer Information to Licensee except as permitted by law. In the event of any inadvertent receipt of Company Customer Information by Licensee under this Agreement, Licensee shall immediately return such information to Company.

10.5 Equitable Relief. In addition to any other rights either party may have under this Agreement or in law, since unauthorized use, access, or disclosure of the Proprietary Information may result in immediate and irreparable injury to the other party for which monetary damages may not be adequate, if either party or any their officers, directors, employees, agents or subcontractors uses or discloses or in the other party's sole opinion, any such party is likely to use or disclose the Proprietary Information in breach of such party's obligations under this Agreement or, in one party's sole opinion there has been a breach to the security, confidentiality, or integrity of the Proprietary Information, the other party will be entitled to equitable relief, including temporary and permanent injunctive relief and specific performance. The affected party will also be entitled to recover any pecuniary gain realized by the other party from the unauthorized use or disclosure of the Proprietary Information.

10.6 Post-Termination Obligation. This Section 10 will survive the expiration or termination of this Agreement.

11. RELATIONSHIP OF PARTIES.

Licensee is an independent contractor. Neither this Agreement nor the parties' actions under this Agreement will be construed as creating a partnership, agency or joint venture; and neither party will become bound by any representation, act or omission of the other party. Licensee shall not file suit using name of any Company entity.

12. DEFENSE AND INDEMNITY

12.1 Defense.

(a) Licensee's Defense Obligations. Licensee shall defend, at its own expense, all allegations of whatever nature asserted in any third party claim, action, lawsuit or proceeding (even though such allegations may be false, fraudulent or groundless) against Company, its affiliates and subsidiaries and/or their respective directors, officers, employees, agents and independent contractors (collectively, the "Company Indemnified

Parties") actually or allegedly resulting from, arising out of, connected with or incidental to the establishment, construction or operation of the Licensed Business, errors in tax preparation services, breach of clients' fiduciary duty, or violations of laws or applicable professional standards, expressly and specifically including any of the following: unauthorized representation, misrepresentation, claims for benefits under any workers' compensation law, injury to or death of persons, unlawful trade practices, the infringement, misuse, dilution, misappropriation, or other violation of any patent, trademark, service mark, trade name, trade dress, copyright, trade secret, domain name, right of publicity or other intellectual property right, damage to property allegedly or actually suffered by any person or persons, or the commission or omission of any act, lawful or unlawful, by Licensee, its affiliates and subsidiaries and/or their respective directors, officers, employees, agents or independent contractors, whether or not such act is within the scope of the authority or employment of such persons and whether or not Licensee's indemnity obligations under Section 12.2 apply (collectively, the "Company Claims").

Licensee shall use counsel satisfactory to Company in the defense of all Company Claims. Company may, at its election, take control of the defense and investigation of any Company Claims and may employ and engage attorneys of its own choice to manage and defend such Company Claims, at Company's risk and expense. If Licensee negotiates a settlement of any such Company Claim, such settlement shall be subject to Company's prior written approval.

(b) Company's Defense Obligations. Company shall defend, at its own expense, all allegations of whatever nature asserted in any third party claim, action, lawsuit or proceeding (even though such allegations may be false, fraudulent or groundless) against Licensee, its affiliates and subsidiaries and/or their respective directors, officers, employees, agents and independent contractors (collectively, the "Licensee Indemnified Parties") actually or allegedly resulting from, arising out of, connected with or incidental to the operation of a Designated Company Store or violations of laws expressly and specifically including any of the following: unauthorized representation, misrepresentation, injury to or death of persons, unlawful trade practices, the infringement, misuse, dilution, misappropriation, or other violation of any patent, trademark, service mark, trade name, trade dress, copyright, trade secret, domain name, right of publicity or other intellectual property right, damage to property allegedly or actually suffered by any person or persons, or the commission or omission of any act, lawful or unlawful, by Company, its affiliates and subsidiaries and/or their respective directors, officers, employees, agents or independent contractors, whether or not such act is within the scope of the authority or employment of such persons and whether or not Company's indemnity obligations under Section 12.2 apply (collectively, the "Licensee Claims").

Company shall use counsel satisfactory to Licensee in the defense of all Licensee Claims. Licensee may, at its election, take control of the defense and investigation of any Licensee Claims and may employ and engage attorneys of its own choice to manage and defend such Licensee Claims, at Licensee's risk and expense. If Company negotiates a settlement of any such Licensee Claim, such settlement shall be subject to Licensee's prior written approval.

12.2 Indemnity.

(a) Licensee's Indemnity Obligations. Licensee shall hold harmless and indemnify the Company Indemnified Parties from and against any and all claims, damages, demands, actions, lawsuits, proceedings, liabilities, losses, costs and expenses (including fees and disbursements of counsel) resulting from, arising out of, connected with or incidental to the establishment, construction or operation of the Licensed Business, expressly and specifically including any of the following: unauthorized representation, misrepresentation, claims for benefits under any workers' compensation law, injury to or death of persons, unlawful trade practices, the infringement, misuse, dilution, misappropriation, or other violation of any patent, trademark, service mark, trade name, trade dress, copyright, trade secret, domain name, right of publicity or other intellectual property right, damage to property allegedly or actually suffered by any person or persons, or the commission or omission of any act, lawful or unlawful, by Licensee, its affiliates and subsidiaries and/or their respective directors, officers, employees, agents or independent contractors, whether or not such act is within the scope of the authority or employment of such persons. The provisions of this Section 12.2 shall not apply to the extent any injury or damage is determined to have been caused solely by Company's gross negligence or willful misconduct.

Licensee agrees to protect, defend, hold harmless and indemnify Company from and against any and all claims, demands, damages, expenses (including reasonable attorney's fees), losses, actions, causes of action, judgments, fines, penalties, fees, suits and proceedings of any kind whatsoever actually or allegedly resulting from or connected with any dispute between Licensee and its franchise operators in connection with the conduct and operation of said Licensed Business hereunder or arising out of agreements between Licensee and such franchise operators. Notwithstanding anything contained in the foregoing, Licensee shall not be required to indemnify Company for any claims, demands, damages, expenses (including attorney's fees), losses, actions, causes of action, judgments, fines, penalties, fees, suits and proceedings which are caused by the gross negligence of Company, its agents or employees.

(b) Company's Indemnity Obligations. Company shall hold harmless and indemnify the Licensee Indemnified Parties from and against any and all claims, damages, demands, actions, lawsuits, proceedings, liabilities,

losses, costs and expenses (including fees and disbursements of counsel) resulting from, arising out of, connected with or incidental to the establishment, construction or operation of a Designated Company Store, expressly and specifically including any of the following: unauthorized representation, misrepresentation, injury to or death of persons, unlawful trade practices, the infringement, misuse, dilution, misappropriation, or other violation of any patent, trademark, service mark, trade name, trade dress, copyright, trade secret, domain name, right of publicity or other intellectual property right, damage to property allegedly or actually suffered by any person or persons, or the commission or omission of any act, lawful or unlawful, by Company, its affiliates and subsidiaries and/or their respective directors, officers, employees, agents or independent contractors, whether or not such act is within the scope of the authority or employment of such persons. The provisions of this Section 12.2 shall not apply to the extent any injury or damage is determined to have been caused solely by Licensee's gross negligence or willful misconduct.

12.3 Survival. This Section 12 will survive the expiration or termination of this Agreement.

13. INSURANCE

13.1 Types of Insurance. Licensee shall carry the following insurance:

(a) Commercial General Liability, including premises/operations, contractual, personal and advertising injury, and products/completed operations liabilities, with limits of at least $3,000,000 per occurrence for bodily injury and property damage combined. Company's entities and associates must be named as additional insureds. Licensee may satisfy the limits of liability requirements by a combination of Commercial General Liability and Umbrella Excess Liability policies.

(b) Business Automobile Liability insurance for owned, non-owned and hired vehicles, with limits of at least $1,000,000 per occurrence for bodily injury and property damage combined, if Licensee uses automobiles in the operation of the Licensed Business. If no vehicles are owned or leased, then Licensee may extend its Commercial General Liability insurance to provide insurance for non-owned and hired automobiles. Licensee may satisfy the limits of liability requirements by a combination of Business Automobile Liability and Umbrella Excess Liability policies.

(c) Workers' Compensation insurance, including coverage for all costs, benefits, and liabilities under Workers' Compensation and similar laws, for all states in which the Licensed Business is located, and Employer's Liability insurance with limits of liability of at least $100,000 per accident or disease and $500,000 aggregate by disease. Such insurance must contain a waiver of subrogation in favor of Company where permitted by law. Licensee warrants that if its Franchisees hire any employees or uninsured independent contractors at any time during the Term,

Franchisees will carry Workers' Compensation and Employer's Liability insurance, and Licensee shall indemnify Company for any loss, cost, liability, expense or damage suffered by Company as a result of any Franchisees' failure to maintain such insurance.

(d) "All Risk" Property Insurance on Licensee's and Franchisee's furniture, fixtures and merchandise in the Designated Company Stores, including perils generally covered on a "Cause of Loss – Special Form", including fire, extended coverage, windstorm, vandalism, malicious mischief, sprinkler leakage, water damage, and accidental collapse and flood, at not less than 90% of the full replacement cost, including a waiver of subrogation in favor of Company.

(e) Errors and Omissions or Professional Liability insurance, with limits of at least $3,000,000 aggregate per policy year .

(f) Bailee's insurance for customer property in Licensee's care, custody or control, in an amount equal to the maximum value, at any one time, of such property.

(g) Licensee shall carry its insurance with companies rated A-/VII or better in the current *Best's Insurance Reports* published by A.M. Best Company.

(h) Company consents to Licensee self-insuring certain risks as stated in the Self-Insurance Addendum attached to this Agreement, contingent upon Licensee's continuing cooperation with and satisfaction of, Company's self-insuring guidelines, unless and until Company revokes this consent, which it may do at any time in its sole discretion. As part of Licensee's cooperation with Company's self-insuring guidelines, Licensee shall provide financial information as reasonable requested from time to time by Company's Risk Management Department in support of its self-insurance position.

(i) For each of Licensee's policies for which Company is an additional insured (by endorsement, terms of policy, or otherwise), Licensee's coverage is primary to any valid and collectible insurance of Company. Licensee warrants that its franchisees and other contractors performing in connection with the Licensed Business will carry the insurance described in Sec. 13.1(a) through (f), inclusive, and Licensee shall indemnify Company for any loss, cost, liability, expense or damage suffered by Company as a result of any Franchisee's or contractor's failure to maintain such insurance.

13.2 No Cancellation Without Notice. Licensee's policies of insurance will provide that they will not be canceled or materially changed without at least 30 days' prior written notice to Company, Certificate Management Services, c/o Insurance Data Services, P.O. Box 12010, Hemet, California 92546, or other address notified by Company.

13.3 Certificates. Licensee shall furnish Company with certificates of insurance before execution of this Agreement and upon each policy renewal during the Term. If Licensee does not provide Company with such certificates of insurance, Company will so advise Licensee, and if Licensee does not furnish evidence of acceptable coverage within five days, Company may immediately terminate this Agreement.

13.4 Expiration/Non-Renewal. Licensee shall promptly notify Company if any of Licensee's insurance policies expire, are canceled, or are materially modified during the Term. If Licensee's insurance policies are materially modified such that, in Company's opinion, those policies do not afford adequate protection to Company, Company will so advise Licensee. If Licensee does not furnish evidence of acceptable replacement coverage within 30 days after the expiration or cancellation of coverage or Company's notification that modified policies are not sufficient, Company shall may immediately terminate this Agreement.

13.5 No Waiver. Company's approval of any of Licensee's insurance coverage will not relieve Licensee of any responsibility under this Agreement, including liability for claims in excess of described limits or liabilities and any costs or injuries not covered by such insurance.

14. TERMINATION

14.1 Termination of Store Locations. Neither party shall terminate a Designated Company Store location without cause during the Tax Season. Termination without cause of Designated Company Store locations outside of the Tax Season shall be addressed as part of the annual August 1 mutually agreed listing of Designated Company Store locations.

14.2 Termination by Company on Notice. Company may terminate this Agreement effective upon written notice to Licensee if any of the following defaults occurs:

(a) Licensee has experienced a Change in Control to which Company has not consented;

(b) a petition is filed either by or against Licensee in any bankruptcy or insolvency proceeding, or any property of Licensee passes into the hands of any receiver, assignee, officer of the law or creditor;

(c) Licensee materially misuses or makes a material unauthorized use of any Company Mark;

(d) Licensee makes any unauthorized use, duplication or disclosure of Confidential Business Information or Customer Information.

Company may also terminate any Licensed Business location effective upon delivery of written notice to Licensee if Licensee abandons, fails to actively operate or fails to commence operation of the License Business at a Designated Company Store as required by Section 6.6.

14.3 Termination by Licensee on Notice. Licensee may terminate this Agreement effective upon written notice to Company if any of the following defaults occurs:

(a) Company has experienced a Change in Control to which Licensee has not consented;

(b) a petition is filed either by or against Company in any bankruptcy or insolvency proceeding, or any property of Company passes into the hands of any receiver, assignee, officer of the law or creditor;

(c) Company materially misuses or makes a material unauthorized use of any Licensee Mark; or

(d) Company makes any unauthorized use, duplication or disclosure of Confidential Business Information or Customer Information.

14.4 Termination After Opportunity to Cure. Either party may terminate this Agreement or any affected location of the Licensed Business immediately upon giving written notice to the other party if such party:

(a) fails to pay any Company Fees or any other amounts due Company, and does not correct that failure within ten days after receipt of written notice of the failure;

(b) fails to comply with any other provision of this Agreement or any mandatory specification, standard or operating procedures prescribed by Company and does not correct such failure within 30 days after receipt of written notice of the failure;

(c) fails to carry insurance coverage as required in Section 13 and does not correct such failure (with no gap in coverage) within ten days after receipt of written notice of such failure.

14.5 Termination on Store Closing or Casualty. Company may, in its sole discretion, terminate this Agreement as to any affected Licensed Business location due to the closing of the Designated Company Store. Licensee is not entitled to any notice of such store closing before a public announcement of the closing. Licensee waives any claim against Company for damages, if any, resulting from the closing. If Company rebrands a Designated Company Store from a Sears brand, Licensee shall have the option, but not the obligation to continue to operate the Licensed Business in such location. Licensee must exercise its option within 14 days of written notice from Company of the rebranding of the store, or its option is lost forever.

If any Designated Company Store is damaged by fire or any other casualty that renders the Licensed Business area untenantable, either party may terminate this Agreement as to that Licensed Business location, without penalty and without liability for any damages as a result of such termination, effective as of the date of the casualty, by giving written notice of termination within 20 days after the casualty. If such notice is not given, then this Agreement will not terminate, but

will remain in full force and effect and the parties shall cooperate with each other so that Licensee can resume operating the Licensed Business as soon as possible.

14.6 Effect of Termination. Upon expiration or termination of this Agreement,

(a) each party shall pay all amounts owed to the other party in accordance with the terms of this Agreement;

(b) each party shall cease use of all Marks and Proprietary Information of the other party;

(c) License shall, in accordance with the terms of this Agreement, remove all of Licensee's Equipment from Company's premises and promptly repair any damage to Company's premises caused by such removal; and

(d) the expense to return the Licensed Business area to its condition when Company made it ready for use by Licensee will be allocated as stated in Schedule 6.1.

14.7 Survivability. No expiration or termination of this Agreement will relieve the parties of obligations arising before expiration or termination or of any obligations that survive expiration or termination of this Agreement.

15. ASSIGNMENT.

15.1 Assignment by Licensee. Regardless of any other provision in this Agreement, Licensee may not assign, transfer, sublicense or convey any of its rights or obligations under this Agreement in whole or in part, without Company's prior written consent. For this purpose, assignment includes a Change in Control in Licensee. Any attempted assignment, transfer, sublicense, conveyance or Change in Control without Company's prior written consent is void.

15.2 Assignment by Company. Regardless of any other provision in this Agreement, Company may not assign, transfer, sublicense or convey any of its rights or obligations under this Agreement in whole or in part, without Licensee's prior written consent. For this purpose, assignment includes a Change in Control in Company. Any attempted assignment, transfer, sublicense, conveyance or Change in Control without Licensee's prior written consent is void.

15.3 Binding Nature. This Agreement is binding upon Licensee and Company their successors and permitted assigns and will bind and inure to the benefit of Company and Licensee and their successors and assigns as applicable. Licensee is directly and primarily liable to Company for the performance or non-performance of this Agreement by its subsidiaries through which it operates in performing this Agreement.

16. MISCELLANEOUS.

16.1 Governing Law. This Agreement is governed by Illinois law, excluding its conflicts of law rules.

16.2 Jurisdiction and Venue. Licensee irrevocably submits to venue and exclusive personal jurisdiction in the federal and state courts in Cook County, Illinois for any dispute arising out of this Agreement, and waives all objections to jurisdiction and venue of such courts.

16.3 Notices. Notices under this Agreement must be in writing and are sufficient if given by nationally recognized overnight courier service, certified mail (return receipt requested), facsimile with electronic confirmation or personal delivery to the other party at the address below:

If to Company:	Sears Holdings Management Corp. 3333 Beverly Road, Mail Station: A2-374B Hoffman Estates, Illinois 60179 Attn.: Business Development Director Facsimile: (847) 286-0224
With a copy to:	Sears Holdings Management Corp. 3333 Beverly Road, Mail Station: B6-350A Hoffman Estates, Illinois 60179 Attn.: Senior Counsel, Licensed Businesses Facsimile: (847) 286-3368
If to Licensee:	H&R Block One H&R Block Way Kansas City, MO 64105 Attn: President – U.S. Tax Facsimile: (816) 854-8500
With a copy to:	H&R Block One H&R Block Way Kansas City, MO 64105 Attn: Legal Department

Notice is effective: (i) when delivered personally, (ii) three business days after being sent by certified mail, (iii) on the business day after being sent by a nationally recognized courier service, or (iv) on the next business day after it is sent by facsimile with electronic confirmation to the sender. A party may change its notice address by giving notice in accordance with this Section 16.3.

16.4 Severability. If any provision of this Agreement is determined to be unenforceable, the parties intend that this Agreement be enforced as if the unenforceable provisions were not present and that any partially valid and enforceable provisions be enforced to the extent that they are enforceable.

16.5 No Waiver. A party does not waive any right under this Agreement by failing to insist on compliance with any of the terms of this Agreement or by failing to exercise any right hereunder. Any waivers granted under this Agreement are effective only if recorded in a writing signed by the party granting the waiver.

16.6 Cumulative Rights. The rights and remedies of the parties under this Agreement are cumulative, and either party may enforce any of its rights or remedies under this Agreement or other rights and remedies available to it at law or in equity.

16.7 Construction. The Section headings of this Agreement are for convenience only and have no interpretive value. This Agreement may be executed in counterparts, which together will constitute one and the same agreement. In this Agreement, "including" and similar words (e.g., "to include") means "including but not limited to".

16.8 Survival. In addition to all other provisions expressly providing that they survive any expiration or termination of this Agreement, this Section 16 will survive any expiration or termination of this Agreement.

16.9 Entire Agreement; Modifications. This Agreement, together with all Schedules referred to herein, which are incorporated by this reference, constitute the complete and final agreement of the parties pertaining to the Licensed Business and supersede all of the parties' prior agreements, understandings and discussions relating to the Licensed Business. No modification or amendment of this Agreement is binding unless it is in writing and signed by Company and Licensee.

16.10 Separate Counterparts. This Agreement may be signed in separate counterparts, which, when taken together, will constitute one and the same agreement. Each party may rely on the facsimile signature of this Agreement by the other. If a party sends a signed copy of this Agreement via facsimile, it will, upon the other party's request, provide an originally signed copy of this Agreement.

[Execution of this document on following page]

Signed, by the parties' duly authorized representatives as of the Effective Date.

SEARS, ROEBUCK AND CO.
By its agent, Sears Holdings Management Corp.
For itself and as agent for
Citibank South Dakota, N.A.,
for purposes of Schedule 9.2A

By: /s/ David L. Schuvie
Its: Vice President and General Manager, Licensed Businesses

H&R BLOCK SERVICES, INC.
As Licensee and as Merchant under Schedule 9.2A

By: /s/ Brian N. Schell
Its: Chief Financial Officer, Tax Services

SCHEDULE 1.1B

DESIGNATED COMPANY STORES

Store #/Location	Sublicense Allowed

[Company to provide list.]

SCHEDULE 3.1

COMPANY FEES

1. Tax Services. The Company Fees for Tax Services shall be calculated per store as follows:

   a. Standard Fees:

Number of Returns in a Tax Season	Percentage of Net Sales paid to Company
[***]	[***]%
[***]	[***]%
[***]	[***]%
[***]	[***]%

Each store's commission rate will be paid monthly, based on its prior year tax returns sales performance. The parties will make appropriate adjustments at the end of each Tax Season, if the store's actual sales in the current Tax Season indicate a different commission rate than what was paid during the Tax Season. New locations will be paid initially at a rate of [***] % during the first year of operation, subject to the year-end adjustment.

2. New Client Incentive. Licensee shall pay Company $ [***] for each New Client served at a Designate Company Store during the Tax Season at the end of each month.

3. Peace of Mind. The Company Fees for Peace of Mind shall be calculated as follows:

   [***] % of Peace of Mind Fees collected by Licensee in the Licensed Business.

4. Tax Classes. Fees for Tax Classes shall be based upon $ [***] , prorated for the time Licensee occupies such space.

5. Check Cashing. Company shall receive 100% of the Check Cashing Fee; Licensee will receive no portion of Company's Check Cashing Fee.

SCHEDULE 4.3A

LICENSEE MARKS

Licensee claims ownership rights in the following trademarks and/or service marks for the following classes of goods or services:

Mark	Goods or Services
Double-Check Challenge	Preparation including re-examination of tax returns
H&R Block & design	Preparation of tax returns, financial planning services, mortgage services, tax advice and planning services for others
H&R Block Advantage	Tax advice and planning services
H&R Block DeductionPro	Computer software for valuing charitable donations
H&R Block Premium	Preparation of tax returns
H&R Block rapid refund & design	Electronic transmission of income tax information
H&R Block Small Business Resources	Tax preparation, bookkeeping, accounting and payroll preparation and administration of business payroll for others
H&R Block TaxCut	Computer programs for use in the preparation of tax returns
Just Plain Smart	Financial planning services, Mortgage banking, mortgage lending, mortgage brokering
Peace of Mind	Providing extended warranties on tax preparation
Rapid Refund H&R Block & design	Electronic transmission of tax return information
Smart Solutions	Providing information and advice relating to financial investments
Tax Cut	Computer programs for tax preparation
Tax Man	Consulting and preparation of income tax returns
Tax Man & Design	Consulting and preparation of income tax returns
TaxNet	Computer programs, consultation and temporary use of on-line non-downloadable software for tax return preparation
The Easy Way to Financial Success	Computer software for financial planning
The Fastest and Easiest Way to Do Your Taxes	Computer software for use in the preparation of taxes
Willpower	Computer software for estate planning for individual consumers
Your Complete Personal Legal Resource	Computer software for educating consumers about legal documents and procedures
Your Taxes. Our Expertise.	Computer software tax return preparation program
Business Organizer	Bookkeeping and bookkeeping services provided in connection with a bookkeeping software program
Express IRA	Offering an IRA
Express Savings	Arranging for an FDIC-insured savings account
EZ W-2	Obtaining a W-2 over the Internet

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Mark	Goods or Services
Fast Money	RAL’s and RAC’s
Fast Money Options	RAL’s and RAC’s
H&R Block Bank	Banking
H&R Block Cash Control	Computer Software
H&R Block TaxCut	Computer programs for use inn the preparation of tax returns
He’s Got People	Tax preparation services for others
I Got People	Tax preparation services for others
In Your Corner	Preparation of tax returns, mortgage lending services and financial planning services
Instant Money	Tax refund anticipation loans
Opciones de Dinero Rapido	RAL’s and RAC’s
Organizit	Organizit for tax preparation software and website
Refund Card	Magnetically encoded debit, credit and prepaid cards and debit and credit card services
Second Look	Reviewing, amending and providing advice on an existing tax return
Second Look Certification	Warranting review of a tax return and providing audit assistance
She’s Got People	Tax preparation services for others
Tango	Online tax preparation product
That’s the Commitment of the Green Square.	Preparation of tax returns, guarantees on tax return preparation, financial loans and re-examination of tax returns for others
They Got People	Tax preparation services for others
We Got People	Tax preparation services for others
Worry- Free Audit Support	Tax and taxation planning, advice, information and consultancy services and income tax consultation and preparation services featuring tax audit representation services
You Got People	Tax preparation services for others
Sears-H&R Block Lic Agr 6-01-07	

SCHEDULE 6.1(f)

FACILITY SPECIFICATIONS

1. See attached “Office Layout Guidelines” that show the general layout and space requirements of average Company office locations.

2. The size of a tax service office shall be calculated as follows:

   a. One work station per 300 returns produced.

   b. Company shall use reasonable efforts to provide 125 square feet of space per work station (this includes space for storage and reception).

3. Company shall provide routine janitorial services in the Licensed Business Area consistent with the janitorial services regularly performed in the Designated Company Store.

4. Company shall provide appropriate heating, ventilation and air conditioning to Licensee’s offices. Reasonable office temperatures (typically between 64°F and 78°F) shall be maintained on average during normal business hours, except during circumstances beyond Company’s reasonable control, including power outages, brown-outs, electrical or mechanical failures, and extreme weather circumstances.

5. Licensee may update and revise these specifications from time to time as necessary, but such changes must be agreed and approved in writing by Company.

SCHEDULE 6.2

NEW LICENSED BUSINESS LOCATION AT DESIGNATED COMPANY STORE

Company shall be responsible for the following in the construction of a Licensed Business Area, including Additional Locations, at a Designated Company Store:

a. If required by Company, perimeter walls, painted standard store colors (or other colors as mutually agreed by the parties);

b. Floor covered by standard store carpet/tile;

c. Ceiling containing standard store lighting; and

d. Standard electrical outlets

Licensee shall be responsible for all other costs and expenses, including furniture, fixtures, equipment, displays, cabinets, counters, shelving, sinks and other such items. Licensee shall also be responsible for any non-standard walls, wall coverings, floor coverings, ceilings, lighting, electrical and data lines within the Licensed Business Area.

EXPIRED, TERMINATED, VACATED, OR ABANDONED LICENSED BUSINESS LOCATION

If a Licensed Business location expires or is terminated, vacated or abandoned for any reason except for breach of this Agreement by Company, Licensee shall at its expense remove all Licensee's Equipment, signs and non-permanent fixtures. Licensee shall cap all gas, electrical and plumbing lines and disconnect all telephones. Licensee shall repair and repaint all walls and ceiling areas affected by such removal of its signs, fixtures, wall art, etc. The Licensed Business Area shall be vacated in a "broom-clean" condition. If a Licensed Business location is terminated, vacated or abandoned for reason of breach of this Agreement by Company, Company shall be responsible to the costs associated with removing Licensee's Equipment, signs and non-permanent fixtures, and for capping all gas, electrical and plumbing lines, disconnecting all telephones, and for repairing and repainting all walls and ceiling areas affected by such removal of its signs, fixtures, wall art, etc., except that Licensee shall remain responsible for damage caused to the store premises caused by Licensee's removal of any equipment or fixtures.

SCHEDULE 9.2A
CITIBANK MERCHANT AGREEMENT
SEARS CARD CONDITIONS

Dated June 7 , 2007

H&R Block Services, Inc. ("Merchant") with a place of business at One H&R Block Way, Kansas City, MO 64105, and CITIBANK SOUTH DAKOTA, N.A. ("Citibank"), in consideration of their respective covenants, agree that Merchant will honor certain Sears branded consumer cards ("Sears Cards") in connection with its sales and leases of goods and services, Citibank will render services and extend credit to Merchant in connection with such Sears Card transactions and the proceeds thereof, and Merchant will compensate Citibank therefor, all in accordance with the terms and conditions set forth below and in the annexed Exhibits, Citibank's Rules (as defined below) in effect from time to time, the other related documents referred to herein and any amendments or supplements hereto or thereto (collectively "this Agreement").

1. Honoring and Advertising Certain Sears Cards.

(a) Merchant undertakes to honor valid Sears Cards issued by Citibank and its affiliates, in accordance with the other provisions of this Agreement and the Sears Merchant Operating Rules and Regulations ("Rules") as outlined in Exhibit A. Merchant may honor cards of other issuers in accordance with its agreements with the relevant issuer or the issuer's association not in conflict with this Agreement. In honoring cards, Merchant will not discriminate against Sears Cards and will not charge its customers using a Sears Card a surcharge over its regular price for the goods or service (unless a surcharge is specifically authorized by law).

(b) If Merchant has physical sales locations where Merchant accepts Sears Cards in payment of purchases, Merchant will display at each sales register as directed by Sears the logo of Sears Cards and promotional materials related to the Sears Cards provided by Citibank or Sears, Roebuck and Co. ("Sears"), or by others with the approval of Citibank or Sears, indicating that such Sears Cards will be honored. Merchant will also inform the customers, as directed by Sears, that such Sears Cards will be honored in connection with all mail, electronic or telephone sales, by including the logos of the Sears Cards in all catalogues, direct mail solicitations and internet sites, or orally in the case of telephone sales. Merchant will also display logos and materials for Sears Cards at each other place in its premises at which the logos or materials of any other card are displayed. Merchant will include the name or logo of the Sears Cards in all advertising in any media in which the names or logos of other credit or debit cards are mentioned. In all of the above situations each such Sears Card logos will be given at least equal prominence with any other card honored, provided that in advertising for which another card issuer pays a substantial portion of the cost, such card issuer may be given greater prominence so long as the above Sears Cards are not excluded. Merchant's advertising will not indicate or imply that any of the above card associations endorses Merchant's goods or services.

(c) Merchant authorizes Citibank to include Merchant's name in any listing or advertising of merchants which honor the above Sears Cards or which use Citibank's services, provided that

Merchant shall have the right of prior approval of any advertising that features the name or trade name of Merchant exclusively or in a limited group of merchants.

2. Citibank Services.

(a) Subject to Merchant arranging for an acquirer mutually agreeable to the parties ("Acquirer"), Citibank will provide the following services: Merchant authorization, transaction submission and settlement services, for customer transactions with Merchant, as described in this Agreement. If Merchant does use an Acquirer, Merchant agrees it will not change Acquirers during the term of this Agreement without Citibank's prior written consent. Unless otherwise agreed by the parties, Merchant is responsible for all Acquirer service fees.

(b) Subject to Merchant utilizing an Acquirer, Citibank will also provide authorization and transaction submission services for transactions involving the use of other cards if the issuer or its association has consented to such an arrangement in writing and makes available suitable facilities for obtaining authorizations and the submission and receipt of transaction records electronically and otherwise and if the costs to Citibank are comparable to its costs for providing such services for Sears Card transactions.

3. Transactions.

(a) A transaction or proposed transaction may be submitted to Citibank or Acquirer for authorization, transmission or settlement only if it is either:

(i) a payment for a bona fide sale or lease of goods or services or both by Merchant to a customer, which does not involve, directly or indirectly, a cash advance to the customer, or

(ii) a refund or adjustment of such a transaction, which does not involve, directly or indirectly, a cash payment by the customer to Merchant.

(b) When entering into each transaction, Merchant shall comply in all respects the Rules then in effect, including the creation of one or more records (each a "Record") relating to customer's account with Citibank, generally representing either:

(i) an order by the customer to Citibank to make a payment to the Merchant, including an electronic order (a "Sales Draft"), or (ii) an order by the Merchant to Citibank to credit the customer's account with Citibank, including an electronic order (a "Credit Slip"). Neither the transaction nor the Record shall create or evidence an account between the customer and the Merchant. Each Record may be in electronic or paper form, or both, but Merchant shall prepare and deliver to the customer a paper copy or counterpart of each Record to the extent required by law or good business practice.

4. Authorizations. Prior to concluding each transaction, Merchant will obtain an authorization for the transaction from Citibank, as provided in the Rules. Merchant will request such authorizations through Citibank or Acquirer and Citibank will report the authorization or denial to Merchant using the systems as described in the Rules.

5. Equipment; Software. Merchant will at its own expense supply and utilize at each of Merchant's locations equipment for electronically requesting, receiving and recording authorizations through Citibank or Acquirer and/or creating Records and/or transmitting Records to Citibank, compatible with Citibank or Acquirer's equipment and systems. If Citibank or its

agents supply to Merchant software for use in connection with the equipment or services provided hereunder, to the extent such software is not separately licensed by the manufacturer or distributor thereof, Citibank hereby grants Merchant a non-exclusive, non-transferable license to use such software pursuant to this Agreement. Merchant agrees not to reverse-engineer, disassemble or decompile any such software, and to return to Citibank all copies of such software upon the termination of this Agreement. The parties will negotiate in good faith any changes in the equipment or software which may be appropriate to utilize technological advances or accommodate to legal changes or marketing developments, and the allocation of the cost of making such changes.

6. Presentation and Retention of Records.

(a) Merchant will present to Citibank or Acquirer a Record of each transaction (e.g. a Sales Draft or a Credit Slip) at the close of each business day on which the transaction is made, using the systems described in the Rules. Merchant will or will cause Acquirer to transmit such Record promptly to the Citibank or its affiliate, at the times and in accordance with the procedures detailed in the Rules. Merchant will provide a copy of such Record to the customer.

(b) Merchant will retain the original or Merchant's copy of the documentation (including but not limited to the Record, which may be in electronic form if the transaction was effected electronically via the world wide web or other electronic medium) for each transaction for six months, and copies thereof for at least three years, and make such available to Citibank on reasonable notice.

7. Chargebacks.

(a) Merchant acknowledges that Citibank and its affiliates have reserved the right to reject, refuse to pay and/or return and charge back transactions for various reasons including but not limited to irregularities in the documentation, failure to follow proper procedures for obtaining authorization or avoiding fraudulent or over-limit transactions, merchant-employee fraud and merchant/customer disputes, all as set forth in the Rules. Citibank shall have the right to charge to Merchant immediately the full amount of any transaction (including transactions which Citibank has previously settled with Merchant) as detailed in the Rules (all such actions being collectively called "Chargebacks").

(b) If Merchant desires to correct any deficiency and resubmit a transaction, or to dispute any Chargeback with the Citibank, it shall follow the procedures set forth in the Rules.

(c) Citibank has the final decision regarding those Type Three Chargebacks as described in the Rules.

8. Settlement. Settlement rules differ by Merchant type as follows:

(a) For Merchants settling with Citibank or Citibank designate as outlined ("Direct Merchants"):

(i) Settlement Timing. On the second Business Day after each day on which Citibank receives from Merchant or Acquirer any Records of transactions on Sears Cards, Citibank will credit to the Merchant checking account as specified in the merchant application (the "Account"), the aggregate amount of all Sales Drafts so received and settled by Citibank since the previous settlement, unless otherwise specified in

Exhibit B. A separate debit will be posted for any Chargebacks or adjustments received. A separate debit will be posted for all interchange fees charged by Citibank on such transactions, and any discount, fees and/or service charges due to Citibank under the Pricing Schedule as outlined in Exhibit B, will be debited on the second Business Day after month end, if applicable. For purposes of this Agreement, "Business Day" means the days the Federal Reserve Bank is open.

(ii) Direct Merchant's Designated Bank Account. Merchant authorizes Citibank and the Merchant's depository institution ("the Bank") to credit to the Account all net payments to Merchant due from Citibank hereunder, and authorizes Citibank and the Bank to debit to the Account all net payments due by Merchant to Citibank hereunder, and instructs the Bank to pay and remit to Citibank all such debits as instructed by Citibank. Merchant shall give the Bank written notice of Citibank's rights and authorities hereunder, with a copy to Citibank and Acquirer.

(iii) Reserve Account. In the event of an occurrence or situation which causes Citibank to reasonably believe that the amount of Credit Slips, Chargebacks and other charges to the Merchant's settlement or Account to be recovered by Citibank during any future period will exceed the amount of Sales Drafts during the same period, Citibank may withhold from its payments pursuant to the previous section, as a "Reserve" against Merchant's future liabilities to Citibank, an amount equal to such anticipated excess, as adjusted from time to time, and may charge or set off against such Reserve any amounts which it is unable to charge against the Account. In lieu of all or any part of such Reserve, Merchant may supply a Letter of Credit or grant to Citibank a security interest in types and amounts of property satisfactory to Citibank as agreed to by Citibank.

(iv) For Citibank's services hereunder, Direct Merchant will pay compensation to Citibank at the rates set forth in the Pricing Schedule, Exhibit B, if applicable.

(b) For Merchants who settle with Sears: If Merchant's license agreement with Sears provides for settlement of consumer credit card transactions through Sears, Citibank will calculate the settlement of Merchant's transactions each day as set forth in Section 8(a)(i) above, and will settle such transactions directly with Sears. Merchant agrees that Citibank satisfies its settlement obligations to Merchant under this agreement by paying Sears, and that Merchant will hold Citibank harmless from claims, losses or damages of any kind resulting from its payment to Sears of amounts owed to Merchant under this agreement pursuant to this Section 8(b). If the settlement of transactions under this Agreement is insufficient to cover amounts owed to Citibank that day, then Citibank will obtain such amounts from Sears and Sears will be subrogated to Citibank's rights to such amounts from Merchant.

9. Title; Security Interest.

(a) Merchant hereby assigns to Citibank, outright and not for purposes of security, all of Merchant's right, title and interest in each Record transmitted or delivered to Citibank under the Agreement for authorization, submission or settlement, and in the transaction it represents and the proceeds thereof.

(b) In addition, Merchant grants to Citibank a security interest in:

(i) any Account, pursuant to Section 8 above; and

(ii) all property or funds in the possession or control of Citibank which is or may be property of or payable to Merchant (including but not limited to any Reserve established pursuant to Section 8); and

(iii) the proceeds of all of the above, as security for any and all debts or obligations of Merchant to Citibank arising under or in connection with this Agreement.

(c) Merchant will execute and deliver to Citibank:

(i) such further assurances or instructions as the Bank may require to effect Citibank's control over the Account; and

(ii) such Financing Statements or other documents as Citibank reasonably concludes are necessary or desirable for the perfection of such security interest in the Account.

(d) Merchant agrees that this Agreement is a contract to extend financial accommodations, as that term is used in the U. S. Bankruptcy Code.

10. LIMITATION OF LIABILITY. CITIBANK HEREBY DISCLAIMS ALL WARRANTIES OF ANY KIND WITH RESPECT TO THE SERVICES OR PRODUCTS PROVIDED UNDER THIS AGREEMENT INCLUDING ANY WARRANTY OF MERCHANTABILITY OR FITNESS FOR USE FOR ANY PARTICULAR PURPOSE. CITIBANK WILL CORRECT AT ITS OWN EXPENSE ANY MISTAKES CAUSED BY CITIBANK OR ITS AGENTS. IN NO EVENT SHALL COMPANY OR ITS AFFILIATES BE LIABLE FOR SPECIAL, INCIDENTAL OR CONSEQUENTIAL DAMAGES OR CLAIMS BY MERCHANT OR ANY THIRD PARTY RELATING TO CITIBANK'S PERFORMANCE UNDER THIS AGREEMENT.

11. Representations and Warranties of Merchant. Merchant represents and warrants that on the date hereof and on each date on which it transmits Records to Citibank or Acquirer the following representations are and will be true:

(a) If Merchant is not a natural person, that Merchant is a duly organized and validly existing legal entity under the laws of the jurisdiction in which it is organized; is qualified to do business in each jurisdiction in which it maintains a place of business; and has the power and authority to enter into and perform this Agreement.

(b) The making and performance of this Agreement by Merchant has been duly authorized by all necessary action, and will not violate any law, regulation, order or award, or any provision of its charter or by-laws, if applicable, or any agreement to which it is a party.

(c) This Agreement has been duly executed by Merchant, including by authorized persons where required, and constitutes its legal, valid and binding obligation, enforceable in accordance with its terms.

(d) Merchant operates the locations at which the sales and Sears Card transactions contemplated by this Agreement are made, and each transaction has been entered into in compliance with this Agreement including the Rules.

Merchant does not do business under a trade name or style not previously disclosed to Citibank and there has been no change in the nature of Merchant's business or the goods and/or services that Merchant sells not previously disclosed to Citibank. Unless approved to do so in writing by Citibank, Merchant will only accept the Sears Card in connection with the goods and/or services.

(e) The most recent audited balance sheets of the Merchant and its subsidiaries, if any, and related audited statements of income and cash flow for the fiscal period then ended, and the comparable most recent unaudited financial statements and for the interim period then ended, copies of which have been furnished to Citibank or will be furnished within 10 days after request by Citibank, fairly present the financial condition of the Merchant (and its subsidiaries, if any) as at such dates and the results of operations for the periods then ended, all in accordance with generally accepted accounting principles consistently applied, and since such latter date there has been no material adverse change in such condition or operations.

(f) All information provided by Merchant to Citibank prior to the execution of this Agreement and while it is in effect with respect to Merchant's business, operations, condition and results is and will be true, correct, complete and not misleading as of the date on which it is provided.

12. Representations of Citibank. Citibank represents and warrants that on the date hereof and on each date on which it receives Records from Merchant hereunder the following representations are and will be true:

(a) Citibank is a national banking association duly organized and existing under the laws of the United States of America; is authorized or qualified to do business in each jurisdiction in which it maintains a place of business; and has the corporate power and authority to enter into and perform this Agreement.

(b) The making and performance of this Agreement by Citibank has been duly authorized by all necessary corporate action, and will not violate any law, regulation, order or award, or any provision of its charter or by-laws or agreement to which it is a party.

(c) This Agreement has been executed by duly authorized officers of Citibank and constitutes its legal, valid and binding obligation, enforceable in accordance with its terms.

13. Merchant Reporting.

Merchant will keep Citibank informed, in a manner specified by Citibank from time to time in its sole discretion, currently concerning all material changes or proposed changes in Merchant's business and business plans, including but not limited to openings and closings of locations or other points of sale or operations, addition or elimination of mail, telephone or internet selling, changes in the type or nature of the products or services sold or leased, and any use of agents, subsidiaries or leased departments; and also of all material changes in its financial condition or operations.

(a) Merchant will furnish to Citibank within 10 days of Citibank's request (i) copies of its Annual Report to its shareholders and its annual, periodic and special reports filed with the Securities and Exchange Commission (if applicable), and (ii) to the extent not so furnished, at

the request of Citibank, copies of its most recent audited balance sheet, income and cash flow statements and of comparable interim unaudited financial statements for all periods since such audit, but only where this Agreement includes a Pricing Schedule as outlined in Exhibit B.

I4. Indemnification.

(a) Merchant will indemnify Citibank and its affiliates and the directors, officers, employees and agents of any of them (the "Citibank Indemnified Party") against, and hold them harmless from any and all claims, damages, liabilities and expenses (including fees and disbursements of counsel) which arise out of:

(i) any goods or services sold or rendered or purported or promised to be sold or rendered by Merchant or any of its affiliates or the directors, officers, employees or agents of any of them, or

(ii) any act or omission of Merchant or any of its affiliates or the directors, officers employees or agents of any of them which: (x) constitutes a breach of this Agreement, or (y) constitutes a failure to comply with, or causes any Citibank Indemnified Party to fail to comply with, any law or governmental or association rule or regulation governing the transactions and operations contemplated hereby, or which violates, or causes any Citibank Indemnified Party to violate, the personal rights of any third party, except that this indemnity shall not apply to any failure to perform any duty or function which Citibank has agreed to perform under this Agreement.

(b) Citibank will indemnify Merchant and its affiliates and the directors, officers, employees and agents of any of them (the "Merchant Indemnified Party") against, and hold them harmless from any and all claims, damages, liabilities and expenses (including fees and disbursements of counsel) which arise out of any act or omission of Citibank or any of its affiliates or the directors, officers, employees or agents of any of them which: (x) constitutes a breach of this Agreement, or (y) constitutes a failure to comply with, or causes any Merchant Indemnified Party to fail to comply with, any law or governmental or association rule or regulation governing the transactions and operations contemplated hereby, or which violates, or causes any Merchant Indemnified Party to violate, the personal rights of any third party, except that this indemnity shall not apply to any failure to perform any duty or function which Merchant has agreed to perform under this Agreement.

(c) Each indemnified party shall promptly notify the other with respect to any claim, damage, liability or expense which may be covered by this indemnity and permit the indemnifying party to participate in the defense thereof, and such indemnified party will not settle the matter without the approval of the indemnifying party.

15. Term; Termination.

(a) This Agreement shall be in effect from the date first written above unless terminated by Citibank on 90 days' prior written notice. Citibank will consult with Sears prior to giving such notice of termination. The parties agree that the Rules will continue to apply until all transactions are resolved or finalized.

(b) This Agreement shall terminate automatically if any case or proceedings in bankruptcy, insolvency, reorganization, arrangement, readjustment of debt, dissolution, liquidation or similar proceeding is commenced by Merchant; or is commenced against Merchant or its property and

not dismissed within 30 days; or if in such a proceeding an order of adjudication is entered or a receiver, trustee or similar officer is appointed.

(c) This Agreement may be terminated for default by either party if the other has failed for a period of 10 days to make any payment required hereunder, or failed for a period of 30 days after notice to perform any of its other duties or obligations hereunder and to compensate the non-defaulting party for any losses, costs, liabilities or expenses incurred as a result of such failure. Notice of failure to perform shall specify the nature of the failure and specify a date, no less than 30 days after such notice, on which this Agreement will terminate if the default is not cured. During such 30 day period the parties will negotiate in good faith to define the scope of such non-performance, the manner in which it may be remedied and the nature and amount of such compensation, in order to avoid the termination if reasonably possible.

(d) No failure or delay by either party to terminate the Agreement or take any other action on account of any default by the other party shall constitute a waiver of such party's right to terminate or to recover damages or any other remedy on account of such default or on account of any other similar or different default hereunder.

(e) This Agreement shall terminate automatically in the event the License Agreement between Merchant and Sears, Roebuck and Co. is terminated for any reason.

16. Notices. All notices and other communications pursuant to this Agreement shall be in writing and sent by hand, courier, priority or first class mail (postage prepaid), or telegraph, to the following addresses, and shall be effective when delivered, or three days after mailing by first class mail:

If to Citibank, all notices:

Citicorp Credit Services, Inc. (USA)
5500 Trillium Boulevard
Hoffman Estates, IL 60192
Attn: Vice President – Business Initiatives

With a copy to the following if notice of default or termination:

Citibank South Dakota, N.A.
701 East 60th Street North
Sioux Falls, SD 57108
Attn: General Counsel

If to Merchant, at the address listed above.

With a copy to:

Sears Roebuck and Co.
3333 Beverly Road
Hoffman Estates, IL 60179
Attn: General Counsel

Notwithstanding the foregoing, notices may be sent, in the manner described above, to such other address as either party shall specify in a notice to the other at least 10 days before its effective date.

17. Amendments.

(a) The Rules delivered herewith shall remain in effect until amended. Citibank may amend the Rules by giving written notice thereof at least 90 days prior to the effective date specified in the notice, provided that an earlier effective date may be chosen if Merchant consents thereto or if the change is made necessary by a change in any law, rule or regulation, or in the interpretation thereof, of any government, and provided, further, that if Merchant objects to the amendment within 15 days after the notice is given, Citibank will discuss with Merchant in good faith the need for the change or any suggested alternative, giving consideration to the potential effects on each party's costs, risks, marketing, volume, etc. If after such discussions Merchant is unwilling in good faith to accept the change or any alternative acceptable to Citibank, and if the change is not reasonably required to comply with law, regulation or the rules of Citibank, Merchant may terminate this Agreement by written notice given no later than the effective date of the amendment and at least 30 days prior to the effective date of the termination. If Merchant terminates this Agreement within its rights under this Agreement, it may still be in breach of separate contract obligations to Sears to accept Sears Cards.

(b) Merchant recognizes that Citibank may amend or reinterpret the rules or regulations without the consent of Merchant.

(c) No other portion of this Agreement may be amended except by written amendment or supplement signed by authorized officers of both parties, and no provision may be waived or consent given unless in writing signed by an authorized officer of the party giving the waiver or consent. No failure to enforce a provision of this Agreement in any instance shall constitute a waiver or consent applicable to any later instance.

18. Entire Agreement; Assigns. This Agreement is the entire agreement and understanding between the parties, notwithstanding any prior understanding not expressed therein. This Agreement is binding on the parties and their respective successors and assigns, and for the benefit of them, their successors and permitted assigns. Neither party may assign this Agreement without the written consent of the other, except that Citibank may assign this Agreement to an affiliate of Citibank, which assumes in writing the obligations of Citibank thereunder.

19. Confidentiality.

(a) Each party will keep confidential, during the term of this Agreement and thereafter, all information which is not available to the general public concerning this Agreement and/or the other party, its plans, operations, systems, programs, software, financial condition and results, both with respect to its credit and debit card business and its business generally provided, however, that Citibank may disclose such information to Sears. In addition, each party may disclose information about this Merchant relationship and operational issues relating to it, to Sears. Each party may make such information available, to the extent necessary for the performance of this Agreement, to its directors, officers, employees, agents, auditors, attorneys and business consultants (who will be required to preserve the confidentiality of such

information) and to any regulatory agency asserting jurisdiction and as otherwise required by law.

(b) Merchant shall not, without customer's consent, reveal customer's Sears Card or account number, transaction or other personal information to third parties other than Citibank or as specifically required by law, provided, however, that Merchant may disclose such information about card transactions for purposes consistent with its agreement with Sears to provide goods or services to Sears customers and as allowed by law. Merchant shall take all appropriate precautions to ensure that all such information shall remain confidential, and that all records maintained by, or transmitted by or to, Merchant or any service provider utilized by Merchant, shall not be used by, disclosed to or subject to access by unauthorized third parties. Merchant shall keep such information in locations and files which are accessible only to selected personnel. Merchant shall immediately report to Citibank any actual or potential breach of such confidentiality, and assist in notifying the proper parties as required by law or requested by Citibank. After the expiration of the required retention period specified by the Rules, Merchant shall destroy all material containing customer information in a manner that renders the data unreadable. After a sale has been authorized, Merchant shall not retain or store any data read from a Sears Card except data required to record the sale.

20. Governing Law. This Agreement shall be governed by federal law and applicable South Dakota laws, without regard to its principles of conflicts of laws.

21. Attorneys Fees. In any litigation between the parties, the prevailing party shall be entitled to be reimbursed by the other for the reasonable fees and expenses of its attorneys, except that if a party prevails as to only a part of its claim, its reimbursement shall be reduced in proportion.

22. Waiver of Jury Trial. THE PARTIES EACH AGREE THAT IN ANY ACTION BETWEEN THEM WITH RESPECT TO THIS AGREEMENT OR ANY AMOUNT PAYABLE THEREUNDER THE PARTIES WILL (AND HEREBY DO) WAIVE ANY RIGHT TO TRIAL BY JURY.

23. Survival of Terms. The following sections will survive termination of this Agreement: Sections 10, 14, 16, 17, 20, 21 and 22.

Citibank South Dakota, N.A. By its agent, Sears Holdings Management Corp.	Merchant
Its: _____	Its: Chief Financial Officer, Tax Services

EXHIBIT A TO SCHEDULE 9.2A
Merchant Operating Rules and Regulations

Sears Card Merchant Operating
Rules and Regulations

These Rules and Regulations contain procedures that must be followed in connection with the acceptance of a Sears Card, unless otherwise agreed to in writing by Citibank. These Rules and Regulations are subject to change by Citibank at any time. Citibank will provide you, your Processor and/or Financial Institution with a copy of the new rules at least 30 days prior to implementation. Citibank will assume that Merchant accepts the changed Rules and Regulations by continuing acceptance of the Sears Card. Citibank reserves the right to suspend acceptance of the Sears Card at any Merchant location at any time.

September 2004

Merchant Services
Call your Processor or Financial Institution

Sears Card Authorizations (24 Hours A Day)
1-800-733-2426

Sears Card Customer Service
1-800-917-7700

Table of Contents

Definitions

Agreement means the Merchant Agreement entered into between Merchant and Citibank.

Arbitration is the process used to determine responsibility for a chargeback-related dispute between Citibank and the processor/merchant.

Authorization(s) means the receipt of a valid authorization code from Citibank when presenting a Card number with respect to a purchase, which includes the indication (i) of availability of credit on a Card at the time of inquiry and (ii) that the Card represents a valid account.

Authorization Center means the Citibank system to be consulted by Merchant for the purpose of obtaining authorization codes and instructions on handling Cards.

Business Day means the days the Federal Reserve Bank is open. Sales Records submitted for processing on a holiday, weekend, or after the cut-off time are treated as received the following Business Day

Card(s) or Sears Card(s) is any Sears brand or Sears owned brand payment instrument issued by Citibank, excluding the HIPS home improvement product and the Sears Charge Plus Account product, and including but not limited to the plastic Sears private label or Sears MasterCard issued to the Cardholder, which Merchant accepts from customers to effect payment for their purchases from Merchant. Where the context so requires, the term "Card" shall also include the Cardholder account relating to the Card. Where MasterCard rules conflict with these rules, MasterCard rules will prevail.

Cardholder is a person to whom a Card is issued or who is authorized by such person to use the Card.

Card Sale is a sale of Goods or Services by Merchant to a valid Cardholder through the use of a Card or Cardholder account. A Card Sale will only be deemed to have occurred after the Merchant has delivered or shipped the Goods and/or performed the Services.

Card Sale Date means the transaction date for any Card Sale.

Chargeback(s) means the reversal of a Card Sale against a sale which Merchant has previously presented.

Credit Slip means documentation or data for a returned item originally sold via a Sears Card.

Code 10 is a term used when a merchant is suspicious of a transaction.

Electronic Card Capture Device means a device intended to electronically transmit Sales Data to Citibank. This can be either a physical or virtual 'Point of Sale' device.

Financial Institution means any bank, credit union, or other financial entity providing Merchant payment transaction processing or services approved by Citibank.

Goods or Services means the goods or services provided by Merchant to a Cardholder.

MasterCard means MasterCard International incorporated (a Delaware corporation).

Merchant/you means an entity that accepts Sears Cards and has been approved by Citibank.

Merchant Settlement Account means an account designated by Merchant through which Citibank will process amounts due Merchant.

Mod 10 Validation means validating that the last position or check digit of an account number is correct by mathematically calculating that digit via running the first 12 digits through an algorithm provided by Citibank or a Processor or Financial Institution.

Processor means any organization processing Merchant payment transactions on behalf of that Merchant and approved to do so by Citibank.

Processing Fees means the fees charged by Citibank for transaction processing connected with the Cards.

Recurring Card Sale is a sale for goods and/or services that are delivered or performed periodically and which results in a charge to Cardholder's account for each performance or delivery.

Refund means any refund, return, or price adjustment of a transaction made through the use of a Card or Cardholders account.

Representment(s) means the resubmission of a transaction by a Merchant to Citibank after a Chargeback.

Return means a Good, which is brought back to the Merchant by a Cardholder for Credit to the Cardholder's account.

Sales Data means data representing Card transactions related to Merchant sales by payment cards, or refunds/credits issued by Merchant.

Sales Record means all documents or data presented to Citibank as evidence of a Card Sale or Credit.

Citibank, We or Us (for the purposes of this document only) means Citibank as issuing authority for the Sears Card.

Transaction means any single Card Sale, payment (if applicable) or Chargeback processed to a Cardholder's account by a Merchant including, but not limited to, an Authorization and ticket capture as a single Transaction.

Transaction Processing means all those functions connected to processing Card Sales.

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* Other capitalized terms used in this document and not otherwise defined shall have the meaning set forth in the Merchant Agreement.

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Internet, Telephone or Mail Order Merchants

Merchants who accept the Card who do not require the physical presentment of the Card or who sell Goods or Services through the Internet, telephone or mail order must perform a Mod 10 Validation.

All Other Merchants

Merchants who accept the physical card must verify that any Sears Card presented to you is a valid Card prior to initiating the transaction. You may verify this by examining the card and confirming that the Card includes the features described below.

Sears "Blue" Card:

- *13 digit card beginning with any number from 0 – 9.*
- *Standard mod 10 check.*
- *Expiration date in mag stripe but not on the plastic.*
- *Expiration date not required at authorization.*
- *Rule: POS device should not validate expiration dates on 13 digit cards.*

Sears Premier Card:

- *13 digit card beginning with any number from 0 – 9.*
- *Standard mod 10 check.*
- *Valid Expiration date embossed on the card as well as within the mag stripe.*
- *Expiration date is required at authorization.*
- *Rule: POS device should not validate expiration dates on 13 digit cards.*

Sears Gold Card

- *Same as Sears Premier Card.*

Sears Private Label 16 Digit Cards** (Sears "Blue" and Premier)**:

- *16 digit ISO standard card.*

- *Bin range = 504994.*
- *Expiration date in mag stripe and embossed on the plastic.*
- *Expiration date is required at authorization.*
- *Rule: POS device should validate expiration dates on 16 digit cards.*

(photo unavailable at this time: appearance identical to 13 digit cards)

Sears MasterCard Products - *(Sears Gold MasterCard, Sears Premier MasterCard)*

- *16 digit ISO standard card.*
- *Bin range = 512106, 512107, and 512108*
- *Expiration date in mag stripe and embossed on the plastic.*
- *Expiration date required.*
- *Rule: POS device should validate expiration dates on 16 digit cards.*

HIPS Cards – (If Applicable)

- *Home Improvement Accounts, both 13 and 16 Digit will be declined by Citibank for all external transactions unless you have a specific agreement with Citibank to accept these cards.*

13 digit Cards:

- *13 digit card beginning with any number from 0 – 9.*
- *Standard mod 10 check.*
- *Expiration date in mag stripe but not on the plastic.*
- *Expiration date not required at authorization.*

Rule: POS device should not validate expiration dates on 13 digit cards

16-digit Cards.

- *16-digit ISO standard card.*
- *Bin range = 504994.*
- *Expiration date in mag stripe and embossed on the plastic.*
- *Expiration date is required at authorization.*
- *Rule: POS device should validate expiration dates on 16 digit cards.*

Sears Charge Plus Cards – (*If Applicable)*

- *Sears Charge Plus Accounts, both 13 and 16 Digit will be declined by Citibank for all external transactions unless you have a specific agreement with Citibank to accept these cards.*

13 digit Cards:

- *13 digit card beginning with any number from 0 – 9.*
- *Standard mod 10 check.*
- *Expiration date in mag stripe but not on the plastic.*
- *Expiration date not required at authorization.*

Rule: POS device should not validate expiration dates on 13 digit cards

16-digit Cards.

- *16-digit ISO standard card.*
- *Bin range = 504994.*
- *Expiration date in mag stripe and embossed on the plastic.*
- *Expiration date is required at authorization.*
- *Rule: POS device should validate expiration dates on 16 digit cards.*

Sears Commercial One Cards — *(See Commercial One Rules & Regulations)*

If you have an agreement with Citibank to accept Sears Commercial One Cards

- *16 digit ISO standard card.*
- *Paper or Plastic Card*
- *Bin range = 504553*
- *Expiration date in mag stripe and embossed on the plastic.*
- *Expiration date required.*

Rule: POS device should validate expiration dates on 16 digit cards

Sears Canada Cards (Not applicable)

Citibank will decline Sears Canada Cards for all external transactions.

- *16 digit ISO standard card.*
- *Bin range = 628181*

Sears Mexico Cards (Not applicable)

Citibank will decline Sears Mexico Cards for all external transactions.

2 Transactions

2.1 Obtaining Authorization

2.1.1 General rules for Authorizations, unless otherwise agreed upon by Citibank in writing:

- before completing the Card Sale, you must obtain Authorization for the amount of the purchase following Citibank specified procedures, including obtaining Authorization through electronic processing methods and terminals, authorized by Citibank.
- you must request Authorization on or before submitting the Card Sale Date for payment except as permitted by the Merchant Operating Rules and Regulations for specific types of transactions (such as lodging, when specifically set forth in your Agreement with Citibank).
- if Authorization is granted, you must provide an Authorization code on the Sales Record submitted to Citibank for processing.

- if Authorization is denied, you must not make further attempts to obtain Authorization with that Card on that day, you must not allow the Card Sale.
- if the Card Sale involves suspicious or unusual circumstances, you must request a Code 10 Authorization. You must retain any Card by reasonable and peaceful means if requested to do so by the Authorization provider. {Please refer to section 1.11.}

If you complete a Card Sale without Authorization, you will be responsible for any Chargeback of the Card Sale. However, obtaining Authorization only means that at the time Authorization was requested sufficient credit or funds were available from the Card account and the Card was not on a warning list. Obtaining Authorization does not assure that the person using the Card is its Cardholder and will not prevent a Chargeback to the Merchant for a variety of reasons under the Chargeback Section 3.2.2 including, but not limited to, use of the Card by an unauthorized user, or a Cardholder claim or defense relating to the Card Sale.

If you process Sears Cards through Citibank, We will provide an authorization log upon your request. Otherwise, please contact your processor.

2.1.2 Telephone, Internet, or Mail Order Merchants (Card Not Present)

For Internet, telephone, or mail order Authorization requests, you must electronically transmit the account number, expiration date (if any), and amount of the transaction. If a Card is accepted for a sale without proper Authorization, Citibank is not required to pay for the sale. If We have already paid for the sale, Citibank can Chargeback the unauthorized sale. A Chargeback can still occur even if Authorization is obtained for other reasons described in the Chargeback section. Authorization requests must be presented at a minimum daily, but preferably real-time.

2.1.3 All Other Merchants

You must obtain Authorization prior to completing a Card sale for any transaction. You must obtain Authorization from Citibank by an Electronic Card Capture Device. Unless you have a prior arrangement with Citibank, We will only provide Authorization over the phone for a device malfunction described in 1.1.4. For Card present transactions, you must transmit to Citibank the complete contents of the magnetic stripe. If the magnetic stripe is unreadable, Citibank will accept a manually entered transaction. Authorization requests must be presented at a minimum daily, but preferably in real-time.

2.1.4 Authorization Downtime Procedures

2.1.4.1 Telephone, Internet or Mail Order Merchants

If the Electronic Card Capture Device is not working you must queue the Authorization requests and retry them when the Authorization system is functional, not to exceed 5 days from the return of Authorization system availability.

2.1.4.2 All Other Merchants

If the Electronic Card Capture Device is not working you must call our Authorization Center at 1-800-733-2426 for Authorization on each sale. If a sale is approved you must re-enter the sale in the Electronic Card Capture Device as soon as the Electronic Card Capture Device is working, not to exceed 5 days after the Authorization system is functional. You must provide the following information:

- Card account number
- Unit number assigned by Citibank
- Dollar amount of Sale
- Expiration date (if applicable)

2.1.5 Authorization Formats

All data transmitted must be in a form and format approved in advance by Citibank and must be presorted and organized according to Citibank' acceptance rules.

2.2 Returns

Citibank will honor your return policy as long as it complies with all federal, state, and local laws and is clearly posted or otherwise made known to the Cardholder at the time of the sale. If a Cardholder returns merchandise or cancels the services paid for with a Sears Card you must give credit to that Sears Card. Returns for sales or cancellation of services not paid for by a Sears Card should not be credited to the Sears Card. Sales Data from the return should be included in your daily file.

All data transmitted must be in a form and format approved in advance by Citibank and must be presorted and organized according to Citibank' instructions.

2.3 Refunds, Adjustments and Credit Slips

2.3.1 Merchant Policy

You may limit returned merchandise or limit price adjustments, to the same extent as for sales not involving a Card, provided you properly disclose the policy to the Cardholder before the sale, the limits are noted on the Card Sale record before the Cardholder signs it, and the purchased Goods or Services are delivered to the Cardholder at the time the Card Sale takes place.

2.3.2 Credit Slip

You may not make a refund or adjustment for a Card Sale in cash (except when required by law), but will deliver to Citibank a Credit Slip for a refund or adjustment to the Card account within seven (7) days of the refund or adjustment and deliver to the Cardholder a copy of the Credit Slip at the time the refund or adjustment is made.

You must include the refund date and amount and a brief description of the refund or adjustment on the Credit Slip in sufficient detail to identify the Card used and original Card Sale.

You may not deliver a Credit Slip to Citibank for any refund or adjustment of a purchase not originating as a Card Sale with the same Cardholder requesting the refund or adjustment, or a Card Sale not made with the Merchant.

You may not receive money from a Cardholder and subsequently deliver to Citibank a Credit Slip to make a deposit to the Card account. Citibank may delay, within the legal limit, processing Credit Slips on any day to the extent the valid Credit Slips exceed the total of valid Card Sales presented on that day.

2.4 Cash Advances

Unless otherwise agreed to in writing by Citibank, you may not issue a cash advance on any Citibank Card.

2.5 Surcharges

Unless otherwise agreed to in writing by Citibank, you may not impose any surcharge, levy, or fee of any kind for the use of a Sears Card product by the Cardholder.

2.6 Split Tickets

You may allow a Cardholder to use the Sears Card to pay for a portion of any service or merchandise.

2.7 Minimum/Maximum Dollar Limits

You may not require that any Cardholder make a minimum purchase in order to use a Sears Card. You may not set a maximum limit on purchases for a Cardholder using a Sears Card.

2.8 Transaction Amount Tolerances

Industry	Amount Tolerances
Retail	Authorization amount must equal clearing amount
Supermarket	Authorization amount must equal clearing amount
Restaurant	Clearing amount variance = +/- 20% from original authorization amount
Hotel/Auto Rental	Clearing amount variance = +/- 15 % of the original authorization amount
Airlines	Clearing amount variance = +/- $1.00
Card Not Present	Authorization amount must equal clearing amount

2.9 Equal Treatment of Sears Card Sales Versus Other Cards
You may not have any policy that discriminates against users of a Sears Card versus any other credit or charge card that you accept.

2.10 Telephone, Internet, or Mail Order Sales
All telephone, Internet, and mail order sales will need to obtain an electronic Authorization as set forth above in section 2.1.

2.11 Suspicious Situations

Any Merchant employee who is suspicious of the validity of a Sears Card or the presenter of the Sears Card for any reason should notify Citibank immediately. The procedure is as follows:

- Call the Authorization Center at 1-800-733-2426**;**
- Ask the Account Manager for a Code 10 Authorization;
- The Account Manager will connect you to the Code 10 Authorization Center;
- The Code 10 Authorization Center will ask your employee a series of questions that will not appear unusual to the customer and will allow them to process the authorization.

2.12 Prohibited Transactions and Factoring

You must not present to Citibank, directly or indirectly, any Sales Record:

- That is not the result of a bona fide Card Sale between the Cardholder and you;
- You knew or should have known to be fraudulent or not authorized by the Cardholder;
- That represents a Card Sale outside your normal course of business;
- Representing the refinancing or transfer of an existing Cardholder obligation;
- Representing a Card Sale arising from the dishonor of a Cardholder’s personal check;
- Representing another Sales Record that has already been presented to Citibank.

3. Applications (where applicable)

3.1 Applications at Point-of-Sale

If applicable, applications for Sears Credit Cards can be completed, whether with or without an accompanying sale, and forwarded to Purchaser via telephone or by electronic transmission, inclusive of telephone, terminal or point-of-sale system devices, will be transmitted to Citibank in a mutually acceptable manner and format. Merchant shall be responsible for the following:

- Providing all information required on the application furnished by Citibank.
- Obtaining and verifying one form of identification to verify the applicant’s identity, one of which must consist of a current, official government identification document, such as a passport or driver’s license, that bears the applicant’s signature.
- Obtaining the signature on the Application of all persons whose names will appear on the Account or who will be responsible for the Account.
- Upon either approval or decline, sending the signed disclosures, including those processed by telephone, to Citibank at the designated address within five (5) days.

- Entering the sale into the Electronic Card Capture Device. If requested to do so by Citibank's representative, Merchant's employee shall also enter into the Electronic Card Capture Device the approval code provided by Citibank
- Providing to each applicant a copy of the initial disclosures Citibank provides to Merchant expressly for distribution to applicants.

If approved, Citibank's representative will provide the Account number, credit limit and term where applicable to Merchants' employee or representative. In order to obtain Authorization for the Card Sale, Merchant's employee or representative must enter the Account number and total amount of the Card Sale into the Electronic Card Capture Device.

If Citibank declines an application, Citibank will provide Merchant's employee or representative with an adverse action reference number that Merchant's employee or representative will provide to the applicant and Citibank will send an adverse action letter to the applicant via mail.

If Citibank is unable to render an immediate decision, Citibank will provide the Merchant's employee or representative with an application pending number with phone number, and the Merchant employee or representative will call Citibank for a final approve or decline decision. If Citibank declines the application, Merchant will then advise the applicant that Citibank will notify the applicant of the final decision by mail.

If the application is approved, but the total amount of the Card Sale exceeds the line of credit offered to the applicant, Citibank's associate will communicate to the applicant a counteroffer for a lower line of credit or another Sears Credit Card. If the applicant declines the counteroffer, Merchant's employee or representative must treat the application as if Citibank declined the application.

3.2 Telephone Applications

If applicable, applications for the Credit Card received by Merchant by telephone, whether with or without an accompanying sale, will be processed by Merchant and forwarded electronically to Citibank in a mutually acceptable manner and format. Such applications will be immediately available for Card Sales only if the Cardholder received the required initial disclosures. If the consumer applies for an Account by telephone and did not receive the initial disclosures, Citibank will put a tiered watch or block on the Account until a plastic card with disclosures is received by the customer, and the Merchant's employee or representative may not process the Card Sale on the Account until the Cardholder activates the card or uses the card in the Store.

3.3 Internet Applications

Customers of Sears who wish to apply for a Sears Credit Card may do so via Sears' Internet website. All applications received by Citibank via the Internet will be processed only if all of the information requested on the website application form has been completed. For Internet applications, the Citibank Card Agreement shall be transmitted to the consumer by Citibank through the website. If approved, Accounts opened via the Internet application process are immediately available for Card Sales.

4. Processing and Settlement

Unless otherwise agreed to with Citibank, all Processing and Settlement for Sears Card transactions will be accomplished via your agreement with your Processor or Financial Institution, with and through Citibank.

4.1 Processing and Settlement for Sears Card Transactions

General Rules for Processing and Settlement

Submission of Card Sales for Cardholder Purchases: You must submit to Citibank Card Sales only if the Card Sale is made or approved by the Cardholder who is issued, or is authorized to use, the Card used for the Card Sale. Unless otherwise agreed to in writing by Citibank, you must not submit a Card Sale until you have performed the services or have shipped the merchandise postage prepaid to the customer. You will not submit:

- A Card Sale involving solicitations from third parties, for example, telemarketing by independent contractors, or a Card Sale involving your franchisees, partners, or joint ventures, except as authorized in writing by Citibank;
- A Card Sale for a purchase from any entity other than you, or Card Sales by any of your owners, partners, officers or employees, other than Card Sales for bona fide purchases from you.

You will not directly bill or accept payment from a Cardholder for any Card sales you submit to Citibank, except that if a Card Sale results in a Chargeback paid by you, you may proceed to collect from the Cardholder as permitted by law but not by submitting a new Card Sale to cover the Chargeback.

Citibank will pay you for each valid Card Sale, which you submit to Citibank by crediting your Merchant Settlement Account according to the payment schedule and method agreed to in your Agreement with Citibank. Citibank is not obligated to pay you for Card Sales submitted that are not valid Card Sales. Each payment from Citibank to you will be subject to adjustment upon Citibank's further review and verification. Payment to you for a Card Sale disputed by a Cardholder for any reason is not final.

Citibank may deduct from any payment to you the amount of any Credit Slip, Refund or Chargeback to you, and any processing fees or Card Sales due from you, as well as any deductions for a Reserve Account, as provided in your Agreement with Citibank. You must immediately pay Citibank the amount by which Credit Slips processed on any day exceed valid Card Sales submitted on that day without limiting Citibank remedies, Citibank may obtain the amount due by deducting it from the Merchant Settlement Account, or funds due you.

You must pay Citibank processing fees and Card Sales in the amount specified in the pricing Schedule provided by Citibank in the Merchant Agreement.

You will designate a Merchant Settlement Account in your name at a depository institution under arrangements acceptable to Citibank. If the Merchant Settlement Account is closed, Citibank may in its sole discretion either hold funds due to you or remit funds to you in a manner of Citibank own choosing such as but not limited to, a check or wire transfer.

All such debits and credits will be made through the Automated Clearing House ("ACH") if possible. Merchant will comply with all ACH and Bank rules applicable. All such debits and credits are provisional as between the parties and subject to reversal under your Merchant Agreement with Citibank.

Merchant shall have the right to replace the Bank and/or the Account upon 10 days written notice to Citibank or Acquirer designating the successor Bank and Account, with a copy of its notice to the successor Bank of Citibank or Acquirer's rights and authorities hereunder. Merchant shall not close the old Account until the successor Account has been opened and such a notice has been given.

Citibank reserves the right, at its sole discretion, to terminate a Merchant as an acceptor of Cards, including the ability to suspend for any period of time the ability of Merchant to accept Cards at any of it's locations (including, but not limited to, acceptance via the Internet, telephone or other means of communication).

If you process the Sears Cards with Citibank, We will provide a settlement report and/or file upon your request. Otherwise, please contact your processor.

4.2 Recording A Card Sale

4.2.1 Completing a Card Sale record

You must record each Card Sale and Sales Record by following procedures in a format and manner specified by Citibank and using records such as sales drafts, sales slips or electronic processing records and methods, as applicable. You will complete each sale as a single Card Sale, unless otherwise agreed to in writing by Citibank.

4.2.2 Obtaining the Cardholders' Signature

You will require Cardholders to sign the Card Sale record but not until the final transaction amount is entered into the total column of the Card Sale record. You warrant that the signature on the Card Sale record is that of the Cardholder or a person authorized by the Cardholder to use the Card. If the signature panel in the Card is blank or if signature panel has "See ID", in addition to requesting an Authorization, you must do all of the following:

- Review positive identification to determine that the customer is the Cardholder. The identification must consist of a current, official government identification document, such as a passport or driver's license, that bears the Cardholder's signature;
- Write the positive identification, including any serial number and expiration date on the Card Sale record;
- Require the Cardholder to sign the signature panel of the Card before completing the Card Sale.

4.2.3 Delivering Card Sale Records to the Cardholder

You will deliver to the Cardholder an accurate and complete copy of the Card Sale, no later than the time of delivery of the goods or performance of services, using a format approved by Citibank. You must provide the following information on the Cardholder's copy:

- Card account number
- Merchant name
- Location code or city and state
- Card Sale amount
- Card Sale Date
- Brief description of merchandise or services sold

4.3 Submitting Electronic Sales Data

4.3.1 General Rules

All Card Sale Data will be submitted to Citibank through an electronic terminal, unless otherwise agreed to in writing by Citibank.

You will submit all Card Sales to Citibank using approved Card Sale records, within five days of the Card Sale unless Citibank grants you a longer time in writing. Delay in submitting Card Sales may result in Citibank declining to process the Card Sales, or non-payment of Merchant Card Sales.

All Card Sale Data must be in US dollars.

4.3.2 Cardholder Verification

You will not complete a Card Sale before the "Valid From" date or after the expiration date of a Card, where applicable.

You will complete a Card Sale only if the signature on the sales draft or Card Sale record is the same as the signature appearing on the Card (which signature may, but need not be, the name embossed or printed on the Card). If identification is uncertain or if you otherwise question the validity of the Card, you will contact Citibank for instructions.

Nevertheless, conforming to these requirements will not relieve you of your responsibility to verify that the person using the Card is the Cardholder or a person authorized by the Cardholder to use the Card.

Citibank may require you to examine additional Card security features before completing a Card Sale.

You must transmit your Sales Data each business day to your Sears Card Processor, Financial Institution or directly to Citibank (if applicable). If you fail to send Sales Data to your Processor, Financial Institution, or Citibank on the next business day, Citibank will not be required to reimburse the transactions, as outlined in the Chargeback Rules. In the event of system availability problems, please see section 2.5.

All data transmitted must be in a form and format approved in advance by Citibank and must be presorted and organized according to Citibank' instructions.

4.4 Payments

You may not receive or process any payment intended for a Cardholder's account. If you receive a payment from a Cardholder, you must immediately forward it to Citibank at:

Citibank Payment Center

PO Box 182149

Columbus, OH 43218-2149

4.5 Settlement Downtime Procedures

If the Electronic Card Capture Device is not working you must retain and continue to retry transmission when the Electronic Card Capture Device is functional. In the event of a Processor or Financial Institution system failure, Citibank reserves the right to reject transactions submitted more than 5 days from the date the system becomes operational. In the event of a Merchant system failure, Citibank reserves the right to reject transactions submitted more than ten days from the transaction date. If you surpass the timeframes listed, you must re-authorize the transaction before the transaction can be submitted for settlement.

5. Special Requirements for Special Services

5.1 Travel and Entertainment

The following sections set forth-additional requirements for travel and entertainment reservation service.

If you provide lodging (hotel, motel, resort or inn) you may guarantee a reservation by obtaining the Card's embossed name, account number and expiration date and by completing the following procedures:

Verbally confirm to the Cardholder the reservation by stating the following information:

- Card's embossed name, account number and expiration date as provided by the Cardholder;
- Name and exact address, including street, city and state of the lodging check-in location;
- Reservation confirmation code;
- Rate and any other details relating to the reservation;
- Provisions of the guaranteed reservation relating to the Cardholder's reservations and any other cancellation details related to the reservation;
- Inform the Cardholder that lodging accommodations will be held until check-out time on the day after the scheduled arrival date unless cancelled by six p.m., local establishment time, on the scheduled arrival date;
- For resort establishments requiring cancellation before six p.m., local establishment time, on the scheduled arrival date, the cancellation time must not exceed 72 hours before the scheduled arrival date. The Cardholder must be provided with the specific written cancellation policy, including the date and time the cancellation privileges expire. If a reservation is made less than 72 hours before the scheduled arrival, the cancellation procedure of six p.m., local establishment time, on the scheduled arrival date will apply;
- Provide the Cardholder if requested with a written confirmation including the information specified above;
- Advise the Cardholder of the billing for a no-show Card Sale as specified below. (A no-show Card Sale is a Card Sale by you resulting from the Cardholder's failure to properly cancel the reservation);
- If the Cardholder has not checked in by check-out time the day following the scheduled arrival date and the reservation was not properly cancelled, the Cardholder may be Charged for one night's lodging including tax;
- Accept a cancellation request from a Cardholder provided the cancellation request is made before the specified cancellation time. Provide the Cardholder with a cancellation code and advise the Cardholder to retain it in case of a dispute. If requested, provide the Cardholder with written confirmation of the cancellation including the Card's embossed name, the cancellation code, and the details relating to the cancelled reservation;

- If the reserved lodging accommodation has not been rented or cancelled by the specified cancellation time, the lodging accommodations must be held available in accordance with the reservation;

5.2 Online/Internet Transactions

All Internet transactions must have 128-bit Secure Socket Layer (SSL) Web encryption at a minimum when any sensitive information is entered or transmitted.

5.3 Retrievals and Chargebacks

Citibank will chargeback to you and you will pay back Citibank, the amount of each Card Sale which you submit to Citibank that is charged back for any reason, or to the extent Citibank has received valid claims regarding the Card Sales from Cardholders under other provisions of law.

5.3.1 Retrieval Requests

A Cardholder may request information regarding a Transaction made at your establishment. If Citibank requests documentation or a Retrieval Request from you, you must provide us with a copy of the Sales Record within 30 business days of our request. If you do not respond in the allotted time, Citibank may issue a chargeback, as described in section 5.2.2.

5.3.2 Chargebacks

A Chargeback may occur for any one or more of several reasons, or through operations of consumer protection laws such as the Truth in Lending Act and the Fair Credit Billing Act. Chargebacks must be submitted to the Merchant no later than 120 days after the transaction in question appeared on the customers' bill or after expected or actual date of delivery or installation. Citibank may correspond on behalf of the Cardholder for submission of dispute summaries or chargeback notifications. Chargeback reasons include, without limitation:

Definition	Explanation	Support Chargeback	Reverse Chargeback
Transaction without Required Authorization	A valid Authorization was not obtained.	Authorization Report for Sales Data and Cardholder billing statement.	-Within downtime floor limits set forth in Section 1.1.3 of the Rules, or - -proof of authorized transaction partial/full .
Transaction without Required Authorization, where Transaction would have been declined by Citibank	A valid Authorization was not obtained.	Authorization Report reflecting that the transaction would have been Declined at the time of sale.	Proof that the transaction was Authorized in part or in full.
Declined Authorization	The Card Sale was completed after Merchant received a decline.	Authorization Report showing Decline and Cardholder billing statement.	-proof of authorized transaction partial/ full
Invalid Cardholder Account Number	The Card Sale was submitted using an Account number for which no valid Account exists or can be located.	Reject-Re-entry Report or Purged Account Report.	-Provide proof of imprint or swiped card information, and - - proof of authorized transaction partial/ full
Late Presentation of Transaction	The Card Sale was presented after the five-day limit, and as provided in Section 1.4.1 of the Rules.	Sales Record and Cardholder billing statement with proof of a negative change in the Cardholder status at the time of Chargeback.	-Provide proof that negative change in the Cardholder status is false or occurred prior to the additional five day period.
Cardholder Disputes Merchandise/Service	The Cardholder disputes the delivery, quality or performance of Merchandise/Service and Merchant has not resolved such dispute within 30 days, and Cardholder claims to have made a good faith attempt to resolve with Merchant.	Completed written dispute form from Citibank stating the claim by the Cardholder.	Resolution of dispute by Merchant within the timeframe, provide proof that a partial/full credit has been posted to the Account, or prove that written dispute is invalid.
Transaction Amount Differs	The Cardholder claims that the purchase amount for which the Cardholder signed was altered after the Cardholder signed the Sales Record and without the Cardholder's consent or direction, with the exception of travel and entertainment transactions. Only the difference will be charged back to Merchant.	Cardholder's Receipt does not match copy of Sales Record received from Merchant or the Account Itemization or Statement	- POS Transaction Log proving Cardholder altered the amount, or - - Merchant Policy at T&E Merchants as outlined in section 3.1.1 of these Rules.

Definition	Explanation	Support Chargeback	Reverse Chargeback
Duplicate Processing	Cardholder claims they have been charged twice for a Card Sale.	Cardholder billing statement(s) or itemization	Production of two Sales Records with different authorization codes or POS Transaction Log or proof that a credit/refund was granted.
Non-Receipt of Refund or cancellation of services/ merchandise	Cardholder claims that a Refund issued by Merchant has never been posted to the Cardholder's Account or Cardholder received a cash refund in connection with a Card Sale. The Chargeback is limited to the amount of the Refund.	Cardholder's Credit Slip or credit advice, or proof of return or cancellation.	-Proof that a credit/refund was granted, or - -Provide Store rebuttal if service /merchandise is not accepted for credit per the refund/return/cancellation policy
Unauthorized Purchase	The Cardholder claims that neither the Cardholder nor any party authorized by the Cardholder participated in the Card Sale and that the Cardholder has no knowledge of the Card Sale.	Completed written dispute form from Citibank stating the claim by the Cardholder, and copy of Sales Record and authorization log. Additional investigation may also be necessary.	Proof that the Sears Card was present at the time of the transaction and (i) a valid Authorization and (ii) consent of Cardholder or Cardholder's authorized representative were obtained. For Mail Orders/Telephone Orders (MOTO): proof that Cardholder received merchandise (or signed receipt of delivery by Cardholder or person to whom shipment was sent in accordance with Cardholder's instructions). Signature and imprinted draft or proof that card was present.
Non-Receipt of Merchandise	Merchant submitted a Card Sale in which the Merchandise was not yet shipped or otherwise provided to the Cardholder or the Cardholder claims they have not received the Merchandise for which they have been charged.	Completed written dispute form from Citibank stating the claim by the Cardholder	Proof that the cardholder or a person authorized by the cardholder received the merchandise.
Non-Receipt of Requested Document	Sales Record or Refund Record has not been provided within 30 days of request.	None	Provide proof that documentation was sent within the same 30-day period.
Breach of representation or warranty of Merchant that relates directly to the Cardholder's complaint, except for instances of Merchant' employee fraud.	Citibank to provide detail to Merchant with respect to the specific breach and amount of Chargeback.	Proof of breach by Merchant.	Proof of compliance in all material respects with representation or warranty.

Citibank may correspond on behalf of the Cardholder for submission of dispute summaries or Chargeback notifications. Merchant will furnish Citibank with copies of Card Sales and related information within thirty (30) days of Citibank's request. Doing so will not prevent a Chargeback, but failure to respond will significantly increase the probability of a Chargeback.

5.3.3 Representment

You must submit your request to Citibank within thirty days after receiving notice of the Chargeback. Your failure to act within that time may not provide Citibank with a reasonable number of days to evaluate your Representment of the Card Sale. Citibank will not be obligated to accept Representments of Chargebacks except to the extent allowed by your timely dispute of other Chargebacks. Citibank' obligation to you for a Chargeback is limited to Representment. Citibank will not engage in direct collection efforts against Cardholders on your behalf.

5.3.4 Type Three Chargeback

Citibank reserves the right to make a final decision and reverse a Chargeback back to you that Citibank does not believe you have provided sufficient proof of your position as outlined in Section 5.2.2 above. Citibank reserves the right to do so in it's sole discretion.

5.3.5 Immediate Payment for Chargebacks

Each Chargeback to you is immediately due and payable. Citibank may deduct, debit, and withhold the amount of the Chargeback or anticipated Chargeback from the deposits due to you at any time without advance notice. Citibank will notify you as debits occur.

In the event Citibank, in its sole discretion, determines that a Merchant, or any of the Merchants locations are experiencing excessive Chargebacks or fraud, Citibank reserves the right to suspend acceptance of the Sears Card from any Merchant or Merchant's location(s) immediately without further notices.

6 Business Type

We have agreed to allow you to accept the Sears Card based on the type of business you currently are in. In the future, if you elect to engage in any new lines or types of business activities, you must immediately inform us of this by contacting Citibank. If you fail to notify us, We may terminate acceptance of the Sears Card immediately and without further notice.

There are some types of businesses We have determined We will not accept as Merchants. We may elect not to extend our Merchant acceptance to any new lines or business activities you might enter in to.

Because of the irreparable damage to the value of the Sears Card and the Trademarks, the use of the Sears Card in connection with a going out of business sale, liquidation sale, insolvency or bankruptcy of Merchant is strictly prohibited. You agree that Citibank will be entitled to, and hereby consents to the entry without notice to your place of business or the posting of any bond in respect thereof by Citibank of, a stay, temporary injunction, and permanent injunctive relief prohibiting such use.

7 Advertising

7.1 Telephone, Internet, or Mail Order Merchants

You agree that you will offer the Sears Card as a payment option in accordance with any agreement you have with Citibank, or at least in such a manner and with such frequency as accorded any other third party credit or charge card with which you do not have a special marketing agreement.

7.2 All Other Merchants

You agree that you will prominently display at each of your locations advertising and promotional materials relating to the Sears Card in such a manner and with such frequency as accorded any other third-party credit or charge card. We may, at our expense or at a mutually agreed upon expense, supply advertising and display materials necessary to promote the Sears Cards.

EXHIBIT B TO SCHEDULE 9.2A
Pricing Schedule

For Citibank's services hereunder, Merchant will pay compensation to Citibank at the rates set forth in this Pricing Schedule, and reimburse Citibank for certain expenses identified herein. Such rates are subject to increase by Citibank to reflect any business necessary increase in the assessments, interchange fees or other charges. In the event of such an increase Citibank will provide to Merchant as much advance notice as possible and a calculation or good faith estimate of the effect of such increase on the costs of providing the services hereunder.

If applicable, Citibank will compute such compensation and deliver a statement to Merchant monthly, and shall, on the first business day following the end of the month, debit the amount from the next settlement as stated in Section 8 of the Agreement, or if such settlement is insufficient, directly from the Account. Any compensation not paid by such a debit will be payable in cash on demand.

Merchant agrees that it will pay Citibank a processing fee equal to 0% of the net amount of all transactions processed under this Agreement.

The net amount shall equal total sales and chargeback reversals minus total credits, returns, and chargebacks.

The processing fee will be calculated daily and subtracted from the total amount due to the Merchant as described in the above Agreement.

Exhibit 10.2

AMENDMENT NUMBER ELEVEN
to the
AMENDED AND RESTATED INDENTURE,
dated as of November 25, 2003,
between
OPTION ONE OWNER TRUST 2001-2
and
WELLS FARGO BANK, N.A.

This AMENDMENT NUMBER ELEVEN (this "Amendment") is made and is effective as of this 29th day of June, 2007, between Option One Owner Trust 2001-2 (the "Issuer") and Wells Fargo Bank, N.A., as Indenture Trustee (the "Indenture Trustee"), to the Amended and Restated Indenture, dated as of November 25, 2003 (the "Indenture"), between the Issuer and the Indenture Trustee.

RECITALS

WHEREAS, the parties hereto desire to amend the Indenture subject to the terms and conditions of this Amendment.

NOW THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and the mutual covenants herein contained, the parties hereto hereby agree as follows:

SECTION 1. Defined Terms. Any terms capitalized but not otherwise defined herein shall have the respective meanings set forth in the Indenture.

SECTION 2. Amendment. Effective as of June 29, 2007, Section 1.01 of the Indenture is hereby amended by deleting in its entirety the definition of "Maturity Date" and replacing it with the following:

"Maturity Date" means, with respect to the Notes, June 12, 2008.

SECTION 3. Representations. In order to induce the parties hereto to execute and deliver this Amendment, the Issuer hereby represents to the Indenture Trustee and the Noteholders that as of the date hereof, after giving effect to this Amendment, (a) all of its respective representations and warranties in the Indenture and the other Basic Documents are true and correct, and (b) it is otherwise in full compliance with all of the terms and conditions of the Indenture and the other Basic Documents, except to the extent waived by the Amendment and Waiver, dated as of January 24, 2007 (the "Indenture"), between the Issuer, Option One Mortgage Corporation, Option One Loan Warehouse Corporation, Option One Mortgage Capital Corporation, the Indenture Trustee and Bank of America as majority noteholder.

SECTION 4. Limited Effect. Except as expressly amended and modified by this Amendment, the Indenture shall continue in full force and effect in accordance with its terms. Reference to this Amendment need not be made in the Indenture or any other instrument or document executed in connection therewith or herewith, or in any certificate, letter or

communication issued or made pursuant to, or with respect to, the Indenture, any reference in any of such items to the Indenture being sufficient to refer to the Indenture as amended hereby.

SECTION 5. Fees and Expenses. The Issuer covenants to pay as and when billed by the Initial Noteholder all of the reasonable out-of-pocket costs and expenses incurred in connection with the transactions contemplated hereby and in the other Basic Documents including, without limitation, (i) all reasonable fees, disbursements and expenses of counsel to the Initial Noteholder and (ii) all reasonable fees and expenses of the Indenture Trustee and its counsel.

SECTION 6. Governing Law. THIS AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, WITHOUT REGARD TO THE CONFLICT OF LAWS DOCTRINE APPLIED IN SUCH STATE.

SECTION 7. Counterparts. This Amendment may be executed by each of the parties hereto on any number of separate counterparts, each of which shall be an original and all of which taken together shall constitute one and the same instrument.

SECTION 8. Limitation on Liability. It is expressly understood and agreed by the parties hereto that (a) this Amendment is executed and delivered by Wilmington Trust Company, not individually or personally, but solely as Owner Trustee of Option One Owner Trust 2001-2 in the exercise of the powers and authority conferred and vested in it, (b) each of the representations, undertakings and agreements herein made on the part of the Issuer is made and intended not as personal representations, undertakings and agreements by Wilmington Trust Company but is made and intended for the purpose for binding only the Issuer, (c) nothing herein contained shall be construed as creating any liability on Wilmington Trust Company, individually or personally, to perform any covenant either expressed or implied contained herein, all such liability, if any, being expressly waived by the parties hereto and by any Person claiming by, through or under the parties hereto and (d) under no circumstances shall Wilmington Trust Company be personally liable for the payment of any indebtedness or expenses of the Issuer or be liable for the breach or failure of any obligation, representation, warranty or covenant made or undertaken by the Issuer under this Amendment or any other related documents.

[signature page follows]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed and delivered by their duly authorized officers as of the day and year first above written.

OPTION ONE OWNER TRUST 2001-2

By: Wilmington Trust Company, not in its individual capacity but solely as owner trustee

By: _____
Name:
Title:

WELLS FARGO BANK, N.A., as Indenture Trustee

By: _____
Name:
Title:

[Signature Page to Amendment Eleven to Amended and Restated Indenture]

Exhibit 10.3

AMENDMENT NUMBER NINE
to the
AMENDED AND RESTATED NOTE PURCHASE AGREEMENT,
dated as of November 25, 2003
among
OPTION ONE OWNER TRUST 2001-2,
OPTION ONE LOAN WAREHOUSE CORPORATION
and
BANK OF AMERICA, N.A.

This AMENDMENT NUMBER NINE (this "Amendment") is made and is effective as of this 29th day of June, 2007 (the "Effective Date"), among Option One Owner Trust 2001-2 (the "Issuer"), Option One Loan Warehouse LLC, as successor-by-conversion to Option One Loan Warehouse Corporation (the "Depositor") and Bank of America, N.A. (the "Purchaser") to the Amended and Restated Note Purchase Agreement, dated as of November 25, 2003, as amended (the "Note Purchase Agreement"), among the Issuer, the Depositor and the Purchaser.

RECITALS

WHEREAS, the Issuer has requested that the Purchaser agree to amend the Note Purchase Agreement to temporarily increase the Maximum Note Principal Balance from $2,002,000,000 to $2,252,000,000, subject to certain terms and conditions and the Purchaser has agreed to make such amendments, subject to the terms and conditions of this Amendment.

NOW THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and the mutual covenants herein contained, the parties hereto hereby agree as follows:

SECTION 1. Defined Terms. Any capitalized terms used but not otherwise defined herein shall have the respective meanings set forth in the Note Purchase Agreement.

SECTION 2. Amendments. As of the Effective Date, the Note Purchase Agreement shall be amended as follows:

(a)Section 1.01 (Certain Defined Terms) shall be amended by adding the definition of "Cerberus Closing" in the proper alphabetical order.

> ""Cerberus Closing" means, the closing of the Stock Purchase Agreement, dated as of April 19, 2007, between OOMC Acquisition Corp., Block Financial Corporation and H&R Block, Inc."

(b)Section 1.01 (Certain Defined Terms) shall be amended by adding the definition of "Threshold Amount" in the proper alphabetical order.

"Threshold Amount" means up to $250,000,000 of the Maximum Note Principal Balance in excess of 2,002,000,000.

(c)Section 1.01 (Certain Defined Terms) shall be amended by adding the definition of "Threshold Trigger" in the proper alphabetical order.

""Threshold Trigger" means that on any date of determination, Depositor has utilized and entered into transactions under residential mortgage loan warehouse, repurchase or other similar facilities in an aggregate amount equal to or in excess of $7,750,000,000."

(d) Section 1.01 (Certain Defined Terms) shall be amended by deleting the definition of "Maximum Note Principal Balance" in its entirety and replacing it with the following:

"Maximum Note Principal Balance" means, (A) $2,002,000,000 or (B) from the June 29, 2007 until the earlier of (i) October 31, 2007 or (ii) the Cerberus Closing, $2,252,000,000, less any reductions pursuant to Section 2.06 of the Sale and Servicing Agreement; provided, however, that the Threshold Amount may only be used to the extent the Threshold Trigger is in effect at all times. After the earlier of (i) October 31, 2007 or (ii) the Cerberus Closing, the Maximum Note Principal Balance shall automatically be reduced to $2,002,000,000.

SECTION 3. Representations. To induce the Purchaser to execute and deliver this Amendment, each of the Issuer and the Depositor hereby represents to the Purchaser that as of the date hereof, after giving effect to this Amendment, (a) all of its respective representations and warranties in the Note Purchase Agreement and the other Basic Documents are true and correct, and (b) it is otherwise in full compliance with all of the terms and conditions of the Note Purchase Agreement.

SECTION 4. Fees and Expenses. The Issuer and the Depositor jointly and severally covenant to pay as and when billed by the Purchaser all of the reasonable out-of-pocket costs and expenses incurred in connection with the transactions contemplated hereby and in the other Basic Documents including, without limitation, (i) all reasonable fees, disbursements and expenses of counsel to the Purchaser, (ii) all reasonable fees and expenses of the Indenture Trustee and Owner Trustee and their counsel and (iii) all reasonable fees and expenses of the Custodian and its counsel.

SECTION 5. Limited Effect. Except as expressly amended and modified by this Amendment, the Note Purchase Agreement shall continue in full force and effect in accordance with its terms. Reference to this Amendment need not be made in the Note Purchase Agreement or any other instrument or document executed in connection therewith, or in any certificate, letter or communication issued or made pursuant to, or with respect to, the Note Purchase Agreement, any reference in any of such items to the Note Purchase Agreement being sufficient to refer to the Note Purchase Agreement as amended hereby.

SECTION 6. GOVERNING LAW. THIS AMENDMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE

STATE OF NEW YORK, WITHOUT REGARD TO THE CONFLICT OF LAWS DOCTRINE APPLIED IN SUCH STATE.

SECTION 7. Counterparts. This Amendment may be executed by each of the parties hereto in any number of separate counterparts, each of which when so executed shall be an original and all of which taken together shall constitute one and the same instrument.

SECTION 8. Limitation on Liability. It is expressly understood and agreed by the parties hereto that (a) this Amendment is executed and delivered by Wilmington Trust Company, not individually or personally, but solely as Owner Trustee of Option One Owner Trust 2001-2 in the exercise of the powers and authority conferred and vested in it, (b) each of the representations, undertakings and agreements herein made on the part of the Issuer is made and intended not as personal representations, undertakings and agreements by Wilmington Trust Company but is made and intended for the purpose for binding only the Issuer, (c) nothing herein contained shall be construed as creating any liability on Wilmington Trust Company, individually or personally, to perform any covenant either expressed or implied contained herein, all such liability, if any, being expressly waived by the parties hereto and by any Person claiming by, through or under the parties hereto and (d) under no circumstances shall Wilmington Trust Company be personally liable for the payment of any indebtedness or expenses of the Issuer or be liable for the breach or failure of any obligation, representation, warranty or covenant made or undertaken by the Issuer under this Amendment or any other related document.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed and delivered by their duly authorized officers as of the day and year first above written.

OPTION ONE OWNER TRUST 2001-2

By: Wilmington Trust Company, not in its individual capacity but solely as owner trustee

By: _____
Name:
Title:

OPTION ONE LOAN WAREHOUSE LLC

By: _____
Name:
Title:

BANK OF AMERICA, N.A.

By: _____
Name:
Title:

Exhibit 10.4

WAIVER AND AMENDMENT NUMBER TWO
TO
AMENDED AND RESTATED SALE AND SERVICING AGREEMENT,

THIS WAIVER AND AMENDMENT NUMBER TWO TO AMENDED AND RESTATED SALE AND SERVICING AGREEMENT (the "Waiver and Amendment") is entered into as of July 19, 2007 by and among OPTION ONE OWNER TRUST 2003-5 (the "Issuer"), OPTION ONE MORTGAGE CORPORATION ("OOMC") and OPTION ONE MORTGAGE CAPITAL CORPORATION ("OOMCC," and together with OOMC, the "Loan Originator") and as servicer (in such capacity, the "Servicer"), OPTION ONE LOAN WAREHOUSE LLC (as successor-in-interest to Option One Loan Warehouse Corporation, the "Depositor," and together with the Loan Originator and Depositor, the "OO Entities"), WELLS FARGO BANK, NATIONAL ASSOCIATION, as indenture trustee (the "Indenture Trustee") and the MAJORITY NOTEHOLDERS party hereto. Capitalized terms used herein and not otherwise defined shall have the meanings ascribed to them in the Sale and Servicing Agreement referred to below.

PRELIMINARY STATEMENTS

A. The Issuer, OOMC, OOMCC, the Depositor and the Indenture Trustee are parties to that certain Amended and Restated Sale and Servicing Agreement dated as of November 12, 2004, as heretofore amended (as so amended, and as it may be restated, supplemented or otherwise modified from time to time, the "Sale and Servicing Agreement") and the Basic Documents as defined therein.

B. Pursuant to Section 7.02(e) of the Sale and Servicing Agreement, entitled "Financial Covenants," OOMC is required to maintain a minimum "Net Income" (defined and determined in accordance with GAAP) of at least $1 based on the total of the current quarter combined with the previous three quarters (the "Minimum Income Covenant"). Pursuant to the Basic Documents, OOMC periodically represents and warrants its compliance with the Minimum Income Covenant. In addition, under the Basic Documents, a failure by OOMC to satisfy the Minimum Income Covenant, if not waived, could be or become a Default, Event of Default or Servicing Event of Default, as those terms are used in the Basic Documents, or could result in a termination of the Revolving Period.

C. OOMC now believes that the Minimum Income Covenant will not be satisfied as of the quarter ending July 31, 2007. The Issuer has requested that the Majority Noteholders waive the Minimum Income Covenant, for the quarter ending July 31, 2007, and, subject to the terms hereof, the Majority Noteholders have agreed to waive the Minimum Income Covenant for the quarter ending July 31, 2007 on and subject to the terms and conditions hereinafter set forth.

D. The parties have also agreed to amend the Sale and Servicing Agreement to end the Revolving Period not later than October 2, 2007.

NOW, THEREFORE, in consideration of the premises set forth above, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

1. Accuracy of Preliminary Statements. The OO Entities agree and represent that the foregoing Preliminary Statements are true and correct in all respects.

2. Temporary Waiver of the Minimum Income Covenant. Effective as of the date first above written and subject to the satisfaction of the conditions precedent set forth in Section 3 below, the Majority Noteholders hereby agree to waive the Minimum Income Covenant for the quarter ending July 31, 2007.

3. Conditions Precedent. This Waiver shall become effective and be deemed effective as of the date first above written upon (i) receipt by OOMC of an executed counterpart of this Waiver from each of the Issuer, the Depositor, the Majority Noteholders and the Indenture Trustee and (ii) execution by each of the OO Entities' warehouse lenders of a waiver of such lender's right to declare a default or event of default based on the failure of any of the OO Entities to satisfy the Minimum Income Covenant. Each such waiver executed under (ii) above shall be substantially similar to the terms hereof.

4. Condition to Continuing Effectiveness. This Waiver shall continue to be effective until July 31, 2007 only so long as no breach of any representation and warranty, covenant or Event of Default (other than the Minimum Income Covenant for any quarter ending, on or before July 31, 2007) has occurred; and provided that the Majority Noteholders shall have the right to require that the Minimum Income Covenant be measured immediately upon the earlier to occur of any of the following: (i) any of the OO Entities' current warehouse lenders cease to provide financing to the related OO Entities or reduce the amount of any financing provided under any existing warehouse line from the amount provided under any such warehouse line as of the date hereof, (ii) OOMC is not purchased by Cerberus Capital Management, L.P. ("Cerberus") prior to September 30, 2007, (iii) Cerberus withdraws its offer to purchase OOMC at any time, or (iv) October 2, 2007. This Waiver shall no longer be effective upon the occurrence of any of (i) through (iv) above if the Minimum Income Covenant is not met as of the date of such occurrence.

5. Covenants, Representations and Warranties of the Issuer, OOMC, OOMCC and the Depositor.

(a) As consideration for this Waiver, each of the Issuer, OOMC (in its capacities as Servicer and Loan Originator), OOMCC and the Depositor hereby reaffirms all covenants, representations and warranties made by the Issuer, OOMC, OOMCC and the Depositor, as applicable, in the Sale and Servicing Agreement, except with respect to Minimum Income Covenant for any quarter ending on or before July 31, 2007, which is modified hereby and agrees that all such covenants, representations and warranties shall be deemed to have been re-made as of the effective date of this Waiver.

(b) Each of the Issuer, OOMC, OOMCC and the Depositor hereby represents and warrants that this Waiver constitutes the legal, valid and binding obligation of the Issuer,

OOMC, OOMCC and the Depositor, as applicable, enforceable against the Issuer, OOMC, OOMCC and the Depositor, as applicable, in accordance with its terms. The execution, delivery and performance by the Issuer, OOMC, OOMCC and the Depositor of this Waiver: (i) are within the Issuer's, OOMC's, OOMCC's and the Depositor's power; (ii) have been duly authorized by all necessary or proper corporate action; (iii) are not in contravention of any provision of the Issuer's, OOMC's, OOMCC's or the Depositor's certificate of incorporation, bylaws or other organizational documents; (iv) will not violate any law applicable to the Issuer, OOMC, OOMCC or the Depositor, as applicable; (v) will not conflict with or result in the breach or termination of, constitute a default under or accelerate any performance required by, any indenture, mortgage, deed of trust, lease, agreement or other instrument to which the Issuer, OOMC, OOMCC or the Depositor is a party or by which the Issuer, OOMC, OOMCC or the Depositor or any of their respective property is bound; (vi) will not result in the creation or imposition of any Lien upon any of the property of the Issuer, OOMC, OOMCC or the Depositor, as applicable; and (vii) do not require the consent or approval of any governmental authority or any other Person, except those which were duly obtained, made or complied with prior to the date of this Waiver.

6. Amendment. The definition of "Revolving Period" in Section 1.01 of the Sale and Servicing Agreement is hereby deleted in its entirety and replaced with the following:

Revolving Period: With respect to the Notes, the period ending on the earlier of (i) October 2, 2007 and (ii) the date on which the Revolving Period is terminated pursuant to Section 2.07.

7. Reference to and Effect on the Sale and Servicing Agreement.

(a) Upon the effectiveness of this Waiver and Amendment, each reference in the Sale and Servicing Agreement and in each of the other Basic Documents to "this Agreement," "hereunder," "hereof," "herein," or words of like import shall mean and be a reference to the Sale and Servicing Agreement as modified hereby, and each reference to the Sale and Servicing Agreement in any other document, instrument or agreement executed and/or delivered in connection with the Sale and Servicing Agreement shall mean and be a reference to the Sale and Servicing Agreement as modified hereby.

(b) Except as specifically modified hereby, the Sale and Servicing Agreement, each of the other Basic Documents and all other documents, instruments and agreements executed and/or delivered in connection therewith shall remain in full force and effect and are hereby ratified and confirmed.

(c) Except as expressly provided in Section 2 hereof, the execution, delivery and effectiveness of this Waiver and Amendment shall not operate as a waiver of any right, power or remedy of the Majority Noteholders under the Sale and Servicing Agreement or any of the other Basic Documents, nor constitute a waiver of, amendment of, consent to or other modification of any other term, provision, Event of Default, or of any term or provision of any other Basic Document, or of any transaction or further or future action of the Issuer which would require the consent of the Majority Noteholders under the Sale and Servicing Agreement. Without limiting the generality of the foregoing, the execution, delivery and effectiveness of this

Waiver shall not entitle the Issuer to a waiver of any existing or hereafter arising Event of Default (other than the Minimum Income Covenant for any quarter ending on or before July 31, 2007), nor shall the Majority Noteholders' execution and delivery of this Waiver establish a course of dealing between the Majority Noteholders and the Issuer or in any other way obligate the Majority Noteholders to hereafter provide any waiver or extension to the Issuer for the payment or performance by the Issuer of its obligations under the Sale and Servicing Agreement and the Basic Documents prior to the enforcement by the Majority Noteholders of any of their respective rights and remedies under the Sale and Servicing Agreement and the other Basic Documents.

8. Limited Effect. Except as expressly amended and modified by this Amendment, the Sale and Servicing Agreement shall continue in full force and effect in accordance with its terms. Reference to this Waiver and Amendment need not be made in the Sale and Servicing Agreement or any other instrument or document executed in connection therewith or herewith, or in any certificate, letter or communication issued or made pursuant to, or with respect to, the Sale and Servicing Agreement, any reference in any of such items to the Sale and Servicing Agreement being sufficient to refer to the Sale and Servicing Agreement as amended hereby.

9. Fees and Expenses. The Issuer and the Depositor jointly and severally covenant to pay as and when billed by the Initial Noteholder all of the reasonable out-of-pocket costs and expenses incurred in connection with the transactions contemplated hereby and in the other Basic Documents including, without limitation, (i) all reasonable fees, disbursements and expenses of counsel to the Initial Noteholder, (ii) all reasonable fees and expenses of the Indenture Trustee and Owner Trustee and their counsel and (iii) all reasonable fees and expenses of the Custodian and its counsel.

10. GOVERNING LAW. THIS WAIVER SHALL BE GOVERNED BY, AND CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK (WITHOUT REGARD TO CONFLICTS OF LAW PRINCIPLES).

11. Execution in Counterparts. This Waiver and Amendment may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed to be an original and all of which taken together shall constitute but one and the same instrument.

12. Headings. Section headings in this Waiver and Amendment are included herein for convenience or reference only and shall not constitute a part of this Waiver and Amendment for any other purpose.

13. Liability. It is expressly understood and agreed by the parties that (a) this Waiver is executed and delivered by Wilmington Trust Company, not individually or personally, but solely as Owner Trustee, in the exercise of the powers and authority conferred and vested in it, pursuant to the Trust Agreement, (b) each of the representations, undertakings and agreements herein made on the part of the Issuer is made and intended not as personal representations, undertakings and agreements by Wilmington Trust Company but is made and intended for the purpose of binding the Issuer with respect thereto, (c) nothing herein contained shall be

construed as creating any liability on Wilmington Trust Company, individually or personally, to perform any covenant either expressly or impliedly contained herein, and the right to claim any and all such liability, if any, being expressly waived by the parties hereto and by any person claiming by, through or under the parties hereto, and (d) under no circumstances shall Wilmington Trust Company be personally liable for the payment of any indebtedness or expenses of the Issuer or be liable for the breach or failure of any obligation, representation, warranty or covenant made or undertaken by the Issuer hereunder or under any other related documents.

14. Direction of Majority Noteholders. By their signature(s) below, the Majority Noteholders hereby authorize and direct the Indenture Trustee to sign this Waiver and Amendment. The Issuer and Majority Noteholders further direct the Indenture Trustee to waive receipt of an Opinion of Counsel as required by Section 11.02 of the Sale and Servicing Agreement.

[Signature Page Follows]

IN WITNESS WHEREOF, the parties hereto have caused this Waiver and Amendment to be executed by their respective officers thereto duly authorized as of the date first written above.

OPTION ONE OWNER TRUST 2003-5, as Issuer

By: Wilmington Trust Company, not in its individual capacity, but solely as Owner Trustee

By: _____

Name: _____

Title: _____

OPTION ONE LOAN WAREHOUSE LLC

(as successor-in-interest to Option One Loan Warehouse Corporation), as Depositor

By: /s/ William L. O'Neill

Name: William L. O'Neill

Title: Treasurer

OPTION ONE MORTGAGE CORPORATION, as Loan Originator and as Servicer

By: /s/ William L. O'Neill

Name: William L. O'Neill

Title: Senior Vice President

WELLS FARGO BANK, NATIONAL ASSOCIATION, as Indenture Trustee

By: _____

Name: _____

Title: _____

:OPTION ONE MORTGAGE CAPITAL CORPORATION, as Loan Originator

By: /s/ William L. O'Neill

Name: William L. O'Neill

Title: Vice President

THE MAJORITY NOTEHOLDERS:
CITIGROUP GLOBAL MARKETS REALTY CORP.

By: _____

Name: _____

Title: _____

IN WITNESS WHEREOF, the parties hereto have caused this Waiver and Amendment to be executed by their respective officers thereto duly authorized as of the date first written above.

OPTION ONE OWNER TRUST 2003-5, as Issuer

By: Wilmington Trust Company, not in its individual capacity but solely as Owner Trustee ,

By: _____

Name: _____

Title: _____

OPTION ONE LOAN WAREHOUSE LLC

(as successor-in-interest to Option One Loan Warehouse Corporation), as Depositor

By: _____

Name: _____

Title: _____

OPTION ONE MORTGAGE CORPORATION, as Loan Originator and as Servicer

By: _____

Name: _____

Title: _____

WELLS FARGO BANK, NATIONAL ASSOCIATION, as Indenture Trustee

By: _____

Name: _____

Title: _____

; OPTION ONE MORTGAGE CAPITAL CORPORATION, as Loan Originator

By: _____

Name: _____

Title: _____

THE MAJORITY NOTEHOLDERS: CITIGROUP GLOBAL MARKETS REALTY CORP.

By: /s/ Randy Appleyard

Name: Randy Appleyard

Title: Authorized Agent

IN WITNESS WHEREOF, the parties hereto have caused this Waiver and Amendment to be executed by their respective officers thereto duly authorized as of the date first written above.

OPTION ONE OWNER TRUST 2003-5, as Issuer

By: Wilmington Trust Company, not in its individual capacity, but solely as Owner Trustee

By: /s/ Ian P. Monigle

Name: Ian P. Monigle

Title: Financial Services Officer

OPTION ONE LOAN WAREHOUSE LLC

(as successor-in-interest to Option One Loan Warehouse Corporation), as Depositor

By: _____

Name: _____

Title: _____

OPTION ONE MORTGAGE CORPORATION, as Loan Originator and as Servicer

By: _____

Name: _____

Title: _____

WELLS FARGO BANK, NATIONAL ASSOCIATION, as Indenture Trustee

By: _____

Name: _____

Title: _____

: OPTION ONE MORTGAGE CAPITAL CORPORATION, as Loan Originator

By: _____

Name: _____

Title: _____

THE MAJORITY NOTEHOLDERS: CITIGROUP GLOBAL MARKETS REALTY CORP.

By: _____

Name: _____

Title: _____

IN WITNESS WHEREOF, the parties hereto have caused this Waiver and Amendment to be executed by their respective officers thereto duly authorized as of the date first written above.

OPTION ONE OWNER TRUST 2003-5, as Issuer

By: Wilmington Trust Company, not in its individual capacity, but solely as Owner Trustee

By: _____

Name: _____

Title: _____

OPTION ONE LOAN WAREHOUSE LLC

(as successor-in-interest to Option One Loan Warehouse Corporation), as Depositor

By: _____

Name: _____

Title: _____

OPTION ONE MORTGAGE CORPORATION, as Loan Originator and as Servicer

By: _____

Name: _____

Title: _____

WELLS FARGO BANK, NATIONAL ASSOCIATION, as Indenture Trustee

By: /s/ Jacquelyn E. Kinbad

Name: Jacquelyn E. Kinbad

Title: Vice President

: OPTION ONE MORTGAGE CAPITAL CORPORATION, as Loan Originator

By: _____

Name: _____

Title: _____

THE MAJORITY NOTEHOLDERS:
CITIGROUP GLOBAL MARKETS REALTY CORP.

By: _____

Name: _____

Title: _____

Exhibit 31.1

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

I, Mark A. Ernst, Chief Executive Officer, certify that:

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

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

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

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

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

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

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 5, 2007

/s/ Mark A. Ernst
Mark A. Ernst
Chief Executive Officer
H&R Block, Inc.

Exhibit 31.2

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

I, William L. Trubeck, Chief Financial Officer, certify that:

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

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

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

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

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

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

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 5, 2007

/s/ William L. Trubeck
William L. Trubeck
Chief Financial Officer
H&R Block, Inc.

Exhibit 32.1

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

In connection with the quarterly report of H&R Block, Inc. (the "Company") on Form 10-Q for the period ending July 31, 2007 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Mark A. Ernst, Chief Executive Officer of the Company, certify pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Mark A. Ernst
Mark A. Ernst
Chief Executive Officer
H&R Block, Inc.
September 5, 2007

Exhibit 32.2

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

In connection with the quarterly report of H&R Block, Inc. (the "Company") on Form 10-Q for the period ending July 31, 2007 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, William L. Trubeck, Chief Financial Officer of the Company, certify pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ William L. Trubeck
William L. Trubeck
Chief Financial Officer
H&R Block, Inc.
September 5, 2007