SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended October 31, 2006

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

H&R Block, Inc.
(Exact name of registrant as specified in its charter)

MISSOURI (State or other jurisdiction of incorporation or organization)	44-0607856 (I.R.S. Employer Identification No.)

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

(816) 854-3000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes ☑ No 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 November 30, 2006 was 322,303,715 shares.

H&R BLOCK

Form 10-Q for the Period Ended October 31, 2006

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CONDENSED CONSOLIDATED BALANCE SHEETS

	(amounts in 000s, except share amounts)	
	October 31, 2006 (Unaudited)	April 30, 2006
ASSETS		
Cash and cash equivalents	$ 442,273	$ 694,358
Cash and cash equivalents — restricted	416,855	394,069
Marketable securities — trading	76,286	16,141
Receivables from customers, brokers, dealers and clearing organizations, net	413,237	496,577
Receivables, less allowance for doubtful accounts of $64,871 and $64,480	413,320	467,677
Mortgage loans held for sale	432,064	236,399
Prepaid expenses and other current assets	574,538	483,215
Total current assets	2,768,573	2,788,436
Residual interests in securitizations — available-for-sale	148,966	159,058
Beneficial interest in Trusts — trading	123,278	188,014
Mortgage servicing rights	269,679	272,472
Mortgage loans held for investment, net	683,839	407,538
Property and equipment, at cost less accumulated depreciation and amortization of $755,730 and $704,792	467,543	443,785
Intangible assets, net	196,444	219,494
Goodwill, net	1,134,576	1,100,452
Other assets	413,993	409,886
Total assets	$ 6,206,891	$ 5,989,135
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Commercial paper	$ 1,040,429	$ —
Current portion of long-term debt	509,021	506,992
Accounts payable to customers, brokers and dealers	700,673	781,303
Customer banking deposits	595,769	—
Accounts payable, accrued expenses and other current liabilities	651,156	768,505
Accrued salaries, wages and payroll taxes	146,589	330,946
Accrued income taxes	172,834	505,690
Total current liabilities	3,816,471	2,893,436
Long-term debt	411,705	417,539
Other noncurrent liabilities	350,086	530,361
Total liabilities	4,578,262	3,841,336
Stockholders' equity:		
Common stock, no par, stated value $.01 per share, 800,000,000 shares authorized, 435,890,796 shares issued at October 31, 2006 and April 30, 2006	4,359	4,359
Additional paid-in capital	658,920	653,053
Accumulated other comprehensive income	21,593	21,948
Retained earnings	3,119,997	3,492,059
Less cost of 113,975,390 and 107,377,858 shares of common stock in treasury	(2,176,240)	(2,023,620)
Total stockholders' equity	1,628,629	2,147,799
Total liabilities and stockholders' equity	$ 6,206,891	$ 5,989,135

See Notes to Condensed Consolidated Financial Statements

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CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

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

	Three months ended October 31, 2006	Three months ended October 31, 2005	Six months ended October 31, 2006	Six months ended October 31, 2005
Revenues:				
Service revenues	$ 462,828	$ 384,263	$ 884,527	$ 699,391
Other revenues:				
Gains on sales of mortgage assets, net	38,601	147,267	102,514	383,698
Interest income	44,599	55,010	85,609	104,263
Product and other revenues	17,213	18,503	31,370	32,684
	563,241	605,043	1,104,020	1,220,036
Operating expenses:				
Cost of services	492,861	398,064	948,359	748,990
Cost of other revenues	97,236	134,864	189,250	258,221
Selling, general and administrative	229,116	195,702	435,705	377,246
	819,213	728,630	1,573,314	1,384,457
Operating loss	(255,972)	(123,587)	(469,294)	(164,421)
Interest expense	(12,091)	(12,385)	(24,226)	(24,820)
Other income, net	5,271	2,843	12,069	10,243
Loss before income tax benefit	(262,792)	(133,129)	(481,451)	(178,998)
Income tax benefit	(106,332)	(51,880)	(193,614)	(69,755)
Net loss	$ (156,460)	$ (81,249)	$ (287,837)	$ (109,243)
Basic and diluted loss per share	$ (0.49)	$ (0.25)	$ (0.89)	$ (0.33)
Basic and diluted shares	321,742	326,047	322,706	328,381
Dividends per share	$ 0.14	$ 0.13	$ 0.26	$ 0.24
Comprehensive income (loss):				
Net loss	$ (156,460)	$ (81,249)	$ (287,837)	$ (109,243)
Change in unrealized gain on available-for-sale securities, net	1,667	(23,653)	(844)	(29,464)
Change in foreign currency translation adjustments	(329)	4,385	489	5,209
Comprehensive income (loss)	$ (155,122)	$ (100,517)	$ (288,192)	$ (133,498)

See Notes to Condensed Consolidated Financial Statements

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, amounts in 000s)		
Six months ended October 31,	2006	2005
Cash flows from operating activities:		
Net loss	$ (287,837)	$ (109,243)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	96,384	90,173
Accretion of residual interests in securitizations	(26,387)	(64,341)
Impairments of available-for-sale residual interests	29,502	20,613
Additions to trading residual interests in securitizations, net	(111,405)	(185,645)
Proceeds from net interest margin transactions, net	52,580	85,472
Realized gain on sale of available-for-sale residual interests	—	(28,675)
Additions to mortgage servicing rights	(92,914)	(136,294)
Amortization and impairment of mortgage servicing rights	95,707	56,980
Tax benefits from stock-based compensation	8,888	14,129
Excess tax benefits from stock-based compensation	(1,567)	—
Other, net of acquisitions	(953,243)	(448,028)
Net cash used in operating activities	(1,190,292)	(704,859)
Cash flows from investing activities:		
Cash received from available-for-sale residual interests	6,422	64,377
Cash received from sale of available-for-sale residual interests	—	30,497
Mortgage loans originated for investment, net	(278,003)	—
Purchases of property and equipment, net	(94,787)	(77,635)
Payments made for business acquisitions, net of cash acquired	(13,609)	(200,309)
Other, net	8,088	13,151
Net cash used in investing activities	(371,889)	(169,919)
Cash flows from financing activities:		
Repayments of commercial paper	(2,295,573)	(1,101,729)
Proceeds from issuance of commercial paper	3,336,002	1,599,904
Customer deposits	595,769	—
Dividends paid	(84,225)	(77,381)
Acquisition of treasury shares	(186,560)	(259,745)
Excess tax benefits from stock-based compensation	1,567	—
Proceeds from exercise of stock options	10,640	42,663
Other, net	(67,524)	(36,657)
Net cash provided by financing activities	1,310,096	167,055
Net decrease in cash and cash equivalents	(252,085)	(707,723)
Cash and cash equivalents at beginning of the period	694,358	1,100,213
Cash and cash equivalents at end of the period	$ 442,273	$ 392,490
Supplementary cash flow data:		
Income taxes paid	$ 313,016	$ 169,223
Interest paid	49,575	50,098

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 October 31, 2006, the condensed consolidated statements of income and comprehensive income for the three and six months ended October 31, 2006 and 2005, and the condensed consolidated statements of cash flows for the six months ended October 31, 2006 and 2005 have been prepared by the Company, without audit. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows at October 31, 2006 and for all periods presented have been made.

"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. In March 2006, the Office of Thrift Supervision (OTS) approved the charter of H&R Block Bank (HRB Bank). HRB Bank commenced operations on May 1, 2006, at which time we realigned certain segments of our business to reflect a new management reporting structure. The previously reported Investment Services segment, H&R Block Mortgage Corporation (HRBMC), which was previously included in the Mortgage Services segment, and HRB Bank have been combined in the Consumer Financial Services segment. Presentation of prior-year results reflects the new segment alignment. See note 11 for additional information on this new segment.

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, 2006 Annual Report to Shareholders on Form 10-K.

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

2. Earnings (Loss) Per Share

Basic and diluted loss per share is computed using the weighted average shares outstanding during each period. The dilutive effect of potential common shares is included in diluted earnings per share except in those periods with a loss. 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 32.5 million shares of stock for the three and six months ended October 31, 2006, and 32.6 million shares of stock for the three and six months ended October 31, 2005, as the effect would be antidilutive due to the net loss recorded during each of the respective periods.

The weighted average shares outstanding for the three and six months ended October 31, 2006 decreased to 321.7 million and 322.7 million, respectively, from 326.0 million and 328.4 million last year, primarily due to our purchases of treasury shares. The effect of these purchases was partially offset by the issuance of treasury shares related to our stock-based compensation plans.

During the six months ended October 31, 2006 and 2005, we issued 1.8 million and 3.3 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 six months ended October 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 $186.6 million. During the six months ended October 31, 2005, we acquired 9.2 million shares of our common stock, of which 9.0 million shares were purchased from third parties with the remaining shares swapped or surrendered to us, at an aggregate cost of $259.7 million.

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3. Mortgage Banking Activities

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

		(in 000s)
Six months ended October 31,	2006	2005
Balance, beginning of period	$ —	$ —
Additions resulting from securitization of mortgage loans	119,669	191,469
Cash received	(8,103)	(7,894)
Accretion	1,766	2,416
Change of fair value	(161)	2,070
Residuals securitized	(56,814)	(94,196)
Balance, end of period	$ 56,357	$ 93,865

At October 31, 2006 and 2005, we had $56.4 million and $93.9 million, respectively, in residual interests classified as trading securities, which are included in marketable securities - - trading on the condensed consolidated balance sheets. These residual interests are the result of the initial securitization of mortgage loans and those held at October 31, 2006 are expected to be securitized in a net interest margin (NIM) transaction during our third quarter. There were no such trading securities recorded as of April 30, 2006. Cash received on trading residual interests is included in operating activities in the condensed consolidated statements of cash flows.

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

		(in 000s)
Six months ended October 31,	2006	2005
Balance, beginning of period	$ 159,058	$ 205,936
Additions from NIM transactions	4,234	8,724
Cash received	(6,422)	(64,377)
Cash received on sale of residual interests	—	(30,497)
Accretion	24,621	61,925
Impairment of fair value	(29,502)	(20,613)
Other	(1,672)	366
Changes in unrealized holding gains, net	(1,351)	(18,682)
Balance, end of period	$ 148,966	$ 142,782

Cash flows from available-for-sale residual interests of $6.4 million and $64.4 million were received from the securitization trusts for the six months ended October 31, 2006 and 2005, respectively, and is included in investing activities in the condensed consolidated statements of cash flows.

Aggregate unrealized gains on available-for-sale residual interests not yet accreted into income totaled $42.5 million at October 31, 2006 and $44.1 million at April 30, 2006. These unrealized gains are recorded net of deferred taxes in other comprehensive income, and may be recognized in income in future periods either through accretion or upon further securitization or sale of the related residual interest.

Activity related to mortgage servicing rights (MSRs) consists of the following:

		(in 000s)
Six months ended October 31,	2006	2005
Balance, beginning of period	$ 272,472	$ 166,614
Additions	92,914	136,294
Amortization and impairment of fair value	(95,707)	(56,980)
Balance, end of period	$ 269,679	$ 245,928

Estimated amortization of MSRs for fiscal years 2007 through 2011 is $85.3 million, $107.8 million, $48.8 million, $20.1 million and $5.9 million, respectively.

The key weighted average assumptions we used to estimate the cash flows and values of the residual interests initially recorded during the six months ended October 31, 2006 and 2005 are as follows:

Six months ended October 31,	2006	2005
Estimated credit losses	3.33%	2.82%
Discount rate	18.24%	20.02%
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 October 31, 2006 and April 30, 2006 are as follows:

	October 31, 2006	April 30, 2006
Estimated credit losses	3.10%	3.07%
Discount rate — residual interests	20.53%	21.98%
Discount rate — MSRs	18.00%	18.00%
Variable returns to third-party beneficial interest holders	LIBOR forward curve at valuation date	

We originate both adjustable and fixed rate mortgage loans. A key assumption used to estimate the cash flows and values of the residual interests and MSRs is average annualized prepayment speeds. Prepayment speeds include voluntary prepayments, involuntary prepayments and scheduled principal payments. Prepayment rate assumptions 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	32%	71%	38%
Without prepayment penalties	36%	52%	34%
Fixed rate mortgage loans:			
With prepayment penalties	30%	47%	37%

For fixed rate mortgages without prepayment penalties, we use an average prepayment rate of 31% 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	2002	2003	2004	2005	2006	2007
As of:							
October 31, 2006	4.92%	2.70%	2.09%	2.21%	2.25%	3.23%	3.31%
April 30, 2006	4.75%	2.69%	2.13%	2.18%	2.48%	3.05%	—
April 30, 2005	4.52%	2.53%	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 October 31, 2006, 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			
	Available-for-Sale Residuals	Beneficial Interest in Trusts	Trading Residuals	MSRs
Carrying amount/fair value	$ 148,966	$ 123,278	$ 56,357	$ 269,679
Weighted average remaining life (in years)	1.6	1.9	1.4	1.3
Prepayments (including defaults):				
Adverse 10% — $ impact on fair value	$ 2,777	$ (5,019)	$ (3,100)	$ (24,048)
Adverse 20% — $ impact on fair value	8,029	(6,116)	(4,345)	(43,697)
Credit losses:				
Adverse 10% — $ impact on fair value	$ (36,844)	$ (5,877)	$ (2,570)	Not applicable
Adverse 20% — $ impact on fair value	(61,519)	(10,825)	(5,120)	Not applicable
Discount rate:				
Adverse 10% — $ impact on fair value	$ (3,509)	$ (2,632)	$ (1,035)	$ (5,967)
Adverse 20% — $ impact on fair value	(6,795)	(5,184)	(2,029)	(11,715)
Variable interest rates (LIBOR forward curve):				
Adverse 10% — $ impact on fair value	$ (4,119)	$ (32,427)	$ 472	Not applicable
Adverse 20% — $ impact on fair value	(9,470)	(61,904)	827	Not applicable

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

Mortgage loans that have been securitized at October 31, 2006 and April 30, 2006, 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)	
					Three months ended	
	October 31, 2006	April 30, 2006	October 31, 2006	April 30, 2006	October 31, 2006	April 30, 2006
Securitized mortgage loans	$ 10,876,063	$ 10,046,032	$ 1,165,531	$ 1,012,414	$ 34,273	$ 35,307
Mortgage loans in warehouse Trusts	4,739,862	7,845,834	—	—	—	—
Mortgage loans held for sale	487,436	255,224	197,571	98,906	71,984	33,504
Total loans	$ 16,103,361	$ 18,147,090	$ 1,363,102	$ 1,111,320	$ 106,257	$ 68,811

4. Goodwill and Intangible Assets

Changes in the carrying amount of goodwill for the six months ended October 31, 2006 consist of the following:

(in 000s)

	April 30, 2006	Additions	Other	October 31, 2006
Tax Services	$ 376,515	$ 5,308	$ 66	$ 381,889
Mortgage Services	136,586	—	—	136,586
Business Services	397,516	28,750	—	426,266
Consumer Financial Services	189,835	—	—	189,835
Total goodwill	$ 1,100,452	$ 34,058	$ 66	$ 1,134,576

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 such events were identified within any of our segments during the six months ended October 31, 2006.

Intangible assets consist of the following:

(in 000s)

	October 31, 2006			April 30, 2006		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Tax Services:						
Customer relationships	$ 28,762	$ (12,628)	$ 16,134	$ 27,257	$ (10,842)	$ 16,415
Noncompete agreements	19,002	(17,895)	1,107	18,879	(17,686)	1,193
Business Services:						
Customer relationships	157,801	(87,999)	69,802	153,844	(81,178)	72,666
Noncompete agreements	33,460	(16,049)	17,411	32,534	(14,300)	18,234
Trade name — amortizing	4,050	(2,506)	1,544	4,050	(1,823)	2,227
Trade name — non-amortizing	55,637	(4,868)	50,769	55,637	(4,868)	50,769
Consumer Financial Services:						
Customer relationships	293,000	(253,323)	39,677	293,000	(235,010)	57,990
Total intangible assets	$ 591,712	$ (395,268)	$ 196,444	$ 585,201	$ (365,707)	$ 219,494

Amortization of intangible assets for the three and six months ended October 31, 2006 was $14.3 million and $29.3 million, respectively. Amortization of intangible assets for the three and six months ended October 31, 2005 was $15.3 million and $30.6 million, respectively. Estimated amortization of intangible assets for fiscal years 2007 through 2011 is $55.3 million, $38.6 million, $15.2 million, $13.2 million and $10.8 million, respectively.

In October 2005, we acquired all outstanding common stock of American Express Tax and Business Services, Inc. for an aggregate purchase price of $190.7 million. The purchase price is subject to certain contractual post-closing adjustments which have not been finalized and any future adjustment would be made to goodwill. During the six months ended October 31, 2006, we adjusted deferred tax balances initially recorded in connection with this acquisition resulting in an increase of $21.3 million to goodwill.

5. Derivative Instruments

A summary of our derivative instruments as of October 31, 2006 and April 30, 2006, and gains or losses incurred during the three and six months ended October 31, 2006 and 2005 is as follows:

(in 000s)

	Asset (Liability) October 31, 2006	Balance at April 30, 2006	Gain (Loss) for the Three Months Ended October 31, 2006	2005	Gain (Loss) for the Six Months Ended October 31, 2006	2005
Rate-lock equivalents	$ 5,673	$ (317)	$ (3,716)	$ 354	$ 4,030	$ (738)
Forward loan sale commitments	2,493	1,961	9,575	—	2,493	—
Put options on Eurodollar futures	1,317	3,282	(2,019)	—	(2,058)	—
Prime short sales	(470)	777	1,556	492	995	1,487
Interest rate swaps	(5,430)	8,831	(33,447)	59,742	(20,267)	85,285
Interest rate caps	—	—	—	162	—	802
	$ 3,583	$ 14,534	$ (28,051)	$ 60,750	$ (14,807)	$ 86,836

The notional amount of interest rate swaps to which we were a party at October 31, 2006 and April 30, 2006 was $4.3 billion and $8.8 billion, respectively, with a weighted average duration at each date of 1.9 years. The notional value and the contract value of our forward loan sale commitments at October 31, 2006 was $3.0 billion and $3.1 billion, respectively, and at April 30, 2006 the notional value and contract value was $3.1 billion.

None of our derivative instruments qualify for hedge accounting treatment as of October 31, 2006 or April 30, 2006.

6. Stock-Based Compensation

Beginning May 1, 2006, we adopted Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment," (SFAS 123R) under the modified prospective approach. Under SFAS 123R, we continue to measure and recognize the fair value of stock-based compensation consistent with our past practice under Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," which we adopted on May 1, 2003 under the prospective transition method. The adoption of SFAS 123R did not have a material impact on our consolidated financial statements.

The following is a comparison of reported and pro forma results had compensation cost for all stock-based compensation grants been determined in accordance with SFAS 123 for the three and six months ended October 31, 2005.

	(in 000s, except per share amounts)	
	Three months ended October 31, 2005	Six months ended October 31, 2005
Net loss as reported	$ (81,249)	$ (109,243)
Add: Stock-based compensation expense included in reported net loss, net of related tax effects	6,246	12,011
Deduct: Total stock-based compensation expense determined under fair value method for all awards, net of related tax effects	(8,790)	(17,098)
Pro forma net loss	$ (83,793)	$ (114,330)
Basic and diluted loss per share:		
As reported	$ (0.25)	$ (0.33)
Pro forma	(0.26)	(0.35)

Stock-based compensation expense of $11.3 million and $21.8 million and the related tax benefits of $3.7 million and $7.4 million are included in our results for the three and six months ended October 31, 2006.

SFAS 123R requires the reclassification, in the statement of cash flows, of the excess tax benefits from stock-based compensation from operating cash flows to financing. As a result, we classified $1.6 million as a cash inflow from financing activities rather than as an operating activity for the six months ended October 31, 2006.

We have four stock-based compensation plans which have been approved by our shareholders. As of October 31, 2006, we had approximately 21.9 million shares reserved for future awards under these plans. We issue shares from our treasury stock to satisfy the exercise or release of stock-based awards.

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

Our 1999 Stock Option Plan for Seasonal Employees provides for awards of nonqualified options to employees. These awards are granted to seasonal employees in our Tax Services segment and entitle the holder to the right to purchase shares of common stock as the award vests, typically over a two-year period. We measure the fair value of options on the grant date using the Black-Scholes

option valuation model. We expense the grant-date fair value, net of estimated forfeitures, over the service period. Options are granted at a price equal to the fair market value of our common stock on the grant date, are exercisable during September through November in each of the two years following the calendar year of the grant and have a contractual term of 29 months.

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

Our 2000 Employee Stock Purchase Plan (ESPP) provides employees the option to purchase shares of our Common Stock through payroll deductions. The purchase price of the stock is 90% of the lower of either the fair market value of our Common Stock on the first trading day within the Option Period or on the last trading day of the Option Period. The Option Periods are six-month periods beginning on January 1 and July 1 each year. We measure the fair value of options on the grant date utilizing the Black-Scholes option valuation model in accordance with FASB Technical Bulletin 97-1, "Accounting under Statement 123 for Certain Employee Stock Purchase Plans with a Look-Back Option." We expense the grant-date fair value over the six-month vesting period.

A summary of options for the six months ended October 31, 2006 is as follows:

(in 000s, except per share amounts)

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding, beginning of period	26,048	$ 21.40		
Granted	4,986	23.85		
Exercised	(726)	14.70		
Forfeited or expired	(364)	23.45		
Outstanding, end of period	29,944	21.94	4 years	$ 68,501
Exercisable, end of period	21,979	$ 21.15	4 years	$ 64,710
Exercisable and expected to vest	28,530	21.80	4 years	68,474

The total intrinsic value of options exercised during the six months ended October 31, 2006 and 2005 were $0.6 million and $8.9 million, respectively. We utilize the Black-Scholes option pricing model to value our options on the grant date. We estimated the expected volatility using our historical stock price data. We also used historical exercise and forfeiture behaviors to estimate the options expected term and our forfeiture rate. The following assumptions were used to value options during the periods:

Six months ended October 31,	2006	2005
Options — management and director:		
Expected volatility	22.84% — 29.06%	27.05% — 27.81%
Expected term	4 — 7 years	5 years
Dividend yield	2.15% — 2.62%	1.71% — 2.15%
Risk-free interest rate	4.70% — 5.10%	3.65% — 4.30%
Weighted-average fair value	$ 5.17	$ 7.40
Options — seasonal:		
Expected volatility	20.05%	23.28%
Expected term	2 years	2 years
Dividend yield	2.26%	1.71%
Risk-free interest rate	5.11%	3.61%
Weighted-average fair value	$ 3.17	$ 4.16
ESPP options:		
Expected volatility	26.30%	24.52%
Expected term	0.5 years	0.5 years
Dividend yield	2.26%	1.71%
Risk-free interest rate	5.24%	3.37%
Weighted-average fair value	$ 1.91	$ 2.12

A summary of nonvested shares and performance nonvested share units for the six months ended October 31, 2006 is as follows:

		(shares in 000s)
	Shares	Weighted Average Grant Date Fair Value
Outstanding, beginning of period	2,455	$ 25.27
Granted	999	23.79
Released	(776)	25.03
Forfeited	(150)	25.09
Outstanding, end of period	2,528	25.13

The total fair value of shares vesting during the six months ended October 31, 2006 and 2005 was $18.4 million and $16.8 million, respectively. Upon the grant of nonvested shares and performance nonvested share units, unearned compensation cost is recorded as an offset to additional paid in capital and is amortized as compensation expense over the vesting period. As of October 31, 2006, we had $50.9 million of total unrecognized compensation cost related to these shares. This cost is expected to be recognized over a weighted-average period of two years.

7. Supplemental Cash Flow Information

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

		(in 000s)
Six months ended October 31,	2006	2005
Residual interest mark-to-market	$ 8,157	$ 25,791
Additions to residual interests	4,234	8,724

8. Regulatory Requirements

Registered Broker-Dealer

HRBFA is subject to regulatory requirements intended to ensure the general financial soundness and liquidity of broker-dealers. At October 31, 2006, HRBFA's net capital of $123.8 million, which was 27.6% of aggregate debit items, exceeded its minimum required net capital of $9.0 million by $114.8 million.

Pledged securities at October 31, 2006 totaled $47.4 million, an excess of $7.3 million over the margin requirement. Pledged securities at April 30, 2006 totaled $53.0 million, an excess of $9.9 million over the margin requirement.

Banking

HRB Bank is 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's operations. Under these 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.

Quantitative measures established by regulation to ensure capital adequacy require HRB Bank to maintain minimum amounts and ratios of capital to assets. As shown in the table below, at September 30, 2006, the most recent date of reporting to Federal banking agencies, HRB Bank is categorized as "well capitalized" for regulatory purposes, which is the highest classification. There are no conditions or events since September 30, 2006 that management believes have changed HRB Bank's category. At October 31, 2006, management believes that HRB Bank meets all capital adequacy requirements to which it is subject. However, events beyond management's control, such as fluctuations in interest rates or a downturn in the economy in areas in which HRB Bank's loans or securities are concentrated, could adversely affect future earnings and consequently, HRB Bank's ability to meet its future capital requirements.

HRB Bank's capital amounts and ratios as of September 30, 2006 are presented in the table below:

(dollars in 000s)

	Actual		Minimum Required to Qualify as Well Capitalized	
	Amount	Ratio	Amount	Ratio
Tier 1 capital to adjusted total assets (leverage)	$ 161,597	23.1%	$ 34,953	5.0%
Total risk-based capital to total risk-weighted assets	$ 163,159	48.1%	$ 33,929	10.0%

Additionally, H&R Block, Inc. is now subject to a three percent minimum ratio of adjusted tangible capital to adjusted total assets, as defined by the OTS.

9. Commitments and Contingencies

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

(in 000s)

Six months ended October 31,	2006	2005
Balance, beginning of period	$ 141,684	$ 130,762
Amounts deferred for new guarantees issued	1,178	1,107
Revenue recognized on previous deferrals	(48,694)	(44,476)
Balance, end of period	$ 94,168	$ 87,393

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

(in 000s)

As of	October 31, 2006	April 30, 2006
Commitment to fund mortgage loans	$ 3,531,737	$ 4,032,045
Commitment to sell mortgage loans	3,000,000	3,052,688
Commitment to fund Franchise Equity Lines of Credit	79,673	75,909
Contingent business acquisition obligations	17,174	24,482

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 the loan repurchase activity in our Mortgage Services segment:

(dollars in 000s)

	Three months ended October 31,		Six months ended October 31,		Fiscal year ended April 30,
	2006	2005	2006	2005	2006
Loans repurchased during the period	$316,453	$58,518	$408,791	$118,484	$297,606
Repurchase reserves added during period	$ 45,821	$17,164	$138,558	$ 31,357	$ 64,098
Repurchase reserves added as a percent of originations	0.69%	0.16%	0.96%	0.16%	0.18%

We established a liability, related to the potential loss we expect to incur on repurchase of loans previously sold and premium recapture, totaling $84.1 million and $33.4 million at October 31, 2006 and April 30, 2006, respectively. On an ongoing basis, we monitor the adequacy of our repurchase liability, which is established upon the initial sale of the loans, and is included in accounts payable, accrued expenses and other current liabilities in the condensed consolidated balance sheets. During the six months ended October 31, 2006, we experienced higher early payment defaults, resulting in an increase in actual and expected loan repurchase activity. As a result, we increased our reserves

accordingly. In establishing our reserves, we've assumed all loans that are currently delinquent and subject to contractual repurchase terms will be repurchased, and that 5% of loans previously sold but not yet subject to contractual repurchase terms will be repurchased. Based on historical experience, we assumed 30% of all loans we repurchase will cure with no loss incurred, and of those that do not cure, we assumed an average 17% loss severity as of October 31, 2006.

HRB Bank is a member of the Federal Home Loan Bank (FHLB) of Des Moines, which extends credit availability to member banks based on eligible collateral and asset size. At October 31, 2006, HRB Bank had FHLB advance capacity of $266.7 million, but no amounts had been drawn on this facility.

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 October 31, 2006.

Restructuring Charge

During fiscal year 2006, we initiated a restructuring plan to reduce costs within our mortgage operations. Changes in the restructuring charge liability during the six months ended October 31, 2006 are as follows:

(in 000s)

	Accrual Balance as of April 30, 2006	Cash Payments	Other Adjustments	Accrual Balance as of October 31, 2006
Employee severance costs	$ 1,737	$ (1,737)	$ —	$ —
Contract termination costs	5,821	(2,884)	(496)	2,441
	$ 7,558	$ (4,621)	$ (496)	$ 2,441

The remaining liability related to this restructuring charge is included in accounts payable, accrued expenses and other current liabilities on our condensed consolidated balance sheet and relates to lease obligations for vacant space resulting from branch office closings.

On November 6, 2006, we announced an additional restructuring plan, also within our mortgage operations, which will be recorded primarily during our third and fourth quarters.

10. Litigation and Related Contingencies

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

The amounts claimed in the RAL Cases have been very substantial in some instances. We have successfully defended against numerous RAL cases, some of which were dismissed on our motions

for dismissal or summary judgment, and others were dismissed voluntarily by the plaintiffs after denial of class certification. Other cases have been settled, with one settlement resulting in a pretax expense of $43.5 million in fiscal year 2003 and the combined pretax expense for such settlements in fiscal year 2006 totaling $70.2 million.

Other putative RAL class action cases and a state attorney general lawsuit are still pending, with the amounts claimed on a collective basis being very substantial. The ultimate cost of this litigation could be substantial. We believe we have meritorious defenses to the remaining RAL Cases and we intend to defend them vigorously. There can be no assurances, however, as to the outcome of the pending RAL Cases individually or in the aggregate or the associated impact on our financial statements.

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

In addition we and certain of our current and former directors and officers are party to a putative class action alleging violations of certain securities laws. The putative securities class action currently 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 our operations. The amount claimed in the putative securities class action is substantial, and the ultimate liability is difficult to predict. We intend to continue defending this case vigorously, although there are no assurances as to its outcome.

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

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11. Segment Information

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

(in 000s)

	Tax Services	Mortgage Services	Business Services	Consumer Financial Services	Corporate	Eliminations	Consolidated
Three months ended October 31, 2006:							
Revenues:							
External	$ 82,090	$ 146,372	$ 228,554	$ 102,636	$ 3,589	$ —	$ 563,241
Loan sales to HRB Bank	—	4,065	—	—	—	(4,065)	—
HRBMC loan sales to OOMC	—	(10,612)	—	10,612	—	—	—
Other intersegment	7	751	549	(804)	3,136	(3,639)	—
	$ 82,097	$ 140,576	$ 229,103	$ 112,444	$ 6,725	$ (7,704)	$ 563,241
Pretax loss	$ (167,442)	$ (39,041)	$ (18,744)	$ (6,640)	$ (27,851)	$ (3,074)	$ (262,792)
Three months ended October 31, 2005:							
Revenues:							
External	$ 80,805	$ 239,567	$ 166,276	$ 116,602	$ 1,793	$ —	$ 605,043
HRBMC loan sales to OOMC	—	(5,088)	—	5,088	—	—	—
Other intersegment	8	1,272	529	—	2,590	(4,399)	—
	$ 80,813	$ 235,751	$ 166,805	$ 121,690	$ 4,383	$ (4,399)	$ 605,043
Pretax income (loss)	$ (142,864)	$ 48,800	$ (2,143)	$ (10,467)	$ (26,695)	$ 240	$ (133,129)
Six months ended October 31, 2006:							
Revenues:							
External	$ 148,108	$ 313,333	$ 433,571	$ 202,924	$ 6,084	$ —	$ 1,104,020
Loan sales to HRB Bank	—	14,443	—	—	—	(14,443)	—
HRBMC loan sales to OOMC	—	(19,084)	—	19,084	—	—	—
Other intersegment	24	1,560	663	(1,266)	6,199	(7,180)	—
	$ 148,132	$ 310,252	$ 434,234	$ 220,742	$ 12,283	$ (21,623)	$ 1,104,020
Pretax loss	$ (320,590)	$ (43,965)	$ (33,309)	$ (14,420)	$ (56,363)	$ (12,804)	$ (481,451)
Six months ended October 31, 2005:							
Revenues:							
External	$ 137,970	$ 547,843	$ 293,015	$ 236,747	$ 4,461	$ —	$ 1,220,036
HRBMC loan sales to OOMC	—	(9,323)	—	9,323	—	—	—
Other intersegment	34	2,278	636	—	4,926	(7,874)	—
	$ 138,004	$ 540,798	$ 293,651	$ 246,070	$ 9,387	$ (7,874)	$ 1,220,036
Pretax income (loss)	$ (287,370)	$ 179,464	$ (8,908)	$ (14,215)	$ (48,457)	$ 488	$ (178,998)

HRB Bank commenced operations on May 1, 2006, at which time we realigned certain segments of our business to reflect a new management reporting structure. The previously reported Investment Services segment, HRBMC (which was previously included in the Mortgage Services segment), and HRB Bank are now reported in the Consumer Financial Services segment. Presentation of prior-year results reflects the new segment alignment.

The Consumer Financial Services segment is primarily engaged in offering advice-based brokerage services and investment planning through HRBFA, mortgage loans through HRBMC and

full-service banking through HRB Bank. HRB Bank offers traditional banking services, including checking and savings accounts, home equity lines of credit, individual retirement accounts, certificates of deposit and prepaid debit card accounts. HRB Bank also purchases loans from Option One Mortgage Corporation (OOMC), HRBMC and other lenders to hold for investment purposes. HRBMC originates non-prime loans for sale to OOMC and prime loans for sale to HRB Bank and other third-party buyers.

All intersegment transactions are eliminated in consolidation. The largest intersegment revenue transactions include gains recognized on loans sold to HRB Bank by OOMC and mortgage fees earned by HRBMC on loans sold to OOMC.

12. New Accounting Pronouncements

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, risk-adjusted fair value and establishes a fair value hierarchy that prioritizes the information used in developing assumptions used when valuing an asset or liability. The provisions of this standard are effective as of the beginning of our fiscal year 2009. We are currently evaluating what effect the adoption of SFAS 157 will have on our consolidated financial statements.

In September 2006, Staff Accounting Bulleting No. 108, "Financial Statements — Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year for Financial Statements" (SAB 108), was issued. SAB 108 provides guidance on how prior year misstatements should be quantified when determining if current year financial statements are materially misstated. These provisions are effective for the current fiscal year, with earlier interim period adoption permitted. We are currently evaluating what effect the adoption of SAB 108 will have on our consolidated financial statements.

In June 2006, FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN 48), was issued. The interpretation requires that a tax position meet a "more-likely-than-not" recognition threshold for the benefit of the uncertain tax position to be recognized in the financial statements and provides guidance on the measurement of the benefit. The interpretation also requires interim period estimated tax benefits of uncertain tax positions to be accounted for in the period of change rather than as a component of the annual effective tax rate. The provisions of this standard are effective as of the beginning of our fiscal year 2008. We are currently evaluating what effect the adoption of FIN 48 will have on our consolidated financial statements.

In June 2006, Emerging Issues Task Force Issue No. 06-3, "How Sales Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross Versus Net Presentation)" (EITF 06-3) was issued. EITF 06-3 requires disclosure of the presentation of taxes on either a gross (included in revenues and costs) or a net (excluded from revenues) basis as an accounting policy decision. The provisions of this standard are effective for interim and annual reporting periods beginning after December 15, 2006. We do not expect the adoption of EITF 06-3 to have a material impact on our consolidated financial statements.

In March 2006, Statement of Financial Accounting Standards No. 156, "Accounting for Servicing of Financial Assets — An Amendment of FASB Statement No. 140," (SFAS 156), was issued. The provisions of this standard require mortgage servicing rights to be initially valued at fair value. SFAS 156 allows servicers to choose to subsequently measure their servicing rights at fair value or to continue using the "amortization method" under SFAS 140. The provisions of this standard are effective as of the beginning of our fiscal year 2008. We are currently evaluating what effect the adoption of SFAS 156 will have on our 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 interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation. The standard permits a hybrid financial instrument to be accounted for in its entirety if the holder irrevocably elects to

measure the hybrid financial instrument at fair value, with changes in fair value recognized currently in earnings. The provisions of this standard are effective as of the beginning of our fiscal year 2008. Our residual interests typically have interests in derivative instruments embedded within the securitization trusts. If we elect to account for our residual interests on a fair value basis, changes in fair value will impact earnings in the period in which the change occurs. We are currently evaluating what effect the adoption of SFAS 155 will have on our consolidated financial statements.

13. 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 Senior Notes issued on April 13, 2000 and October 26, 2004. 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 October 31, 2006	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Elims	Consolidated H&R Block
Total revenues	$ —	$ 316,076	$ 248,689	$ (1,524)	$ 563,241
Cost of services	—	125,395	367,465	1	492,861
Cost of other revenues	—	94,106	3,130	—	97,236
Selling, general and administrative	—	109,680	120,961	(1,525)	229,116
Total expenses	—	329,181	491,556	(1,524)	819,213
Operating loss	—	(13,105)	(242,867)	—	(255,972)
Interest expense	—	(11,810)	(281)	—	(12,091)
Other income, net	(262,792)	1,194	4,077	262,792	5,271
Loss before tax benefit	(262,792)	(23,721)	(239,071)	262,792	(262,792)
Income tax benefit	(106,332)	(9,362)	(96,970)	106,332	(106,332)
Net loss	$ (156,460)	$ (14,359)	$ (142,101)	$ 156,460	$ (156,460)

Three months ended October 31, 2005	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Elims	Consolidated H&R Block
Total revenues	$ —	$ 395,825	$ 213,175	$ (3,957)	$ 605,043
Cost of services	—	115,818	282,203	43	398,064
Cost of other revenues	—	129,316	5,548	—	134,864
Selling, general and administrative	—	96,960	102,742	(4,000)	195,702
Total expenses	—	342,094	390,493	(3,957)	728,630
Operating income (loss)	—	53,731	(177,318)	—	(123,587)
Interest expense	—	(11,811)	(574)	—	(12,385)
Other income, net	(133,129)	—	2,843	133,129	2,843
Income (loss) before taxes	(133,129)	41,920	(175,049)	133,129	(133,129)
Income taxes (benefit)	(51,880)	16,349	(68,229)	51,880	(51,880)
Net income (loss)	$ (81,249)	$ 25,571	$ (106,820)	$ 81,249	$ (81,249)

Six months ended October 31, 2006	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Elims	Consolidated H&R Block
Total revenues	$ —	$ 639,737	$ 467,254	$ (2,971)	$ 1,104,020
Cost of services	—	251,193	697,133	33	948,359
Cost of other revenues	—	182,797	6,453	—	189,250
Selling, general and administrative	—	211,271	227,438	(3,004)	435,705
Total expenses	—	645,261	931,024	(2,971)	1,573,314
Operating loss	—	(5,524)	(463,770)	—	(469,294)
Interest expense	—	(23,618)	(608)	—	(24,226)
Other income, net	(481,451)	3,966	8,103	481,451	12,069
Loss before tax benefit	(481,451)	(25,176)	(456,275)	481,451	(481,451)
Income tax benefit	(193,614)	(9,929)	(183,685)	193,614	(193,614)
Net loss	$ (287,837)	$ (15,247)	$ (272,590)	$ 287,837	$ (287,837)

Six months ended October 31, 2005	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Elims	Consolidated H&R Block
Total revenues	$ —	$ 856,465	$ 370,840	$ (7,269)	$ 1,220,036
Cost of service revenues	—	225,171	523,687	132	748,990
Cost of other revenues	—	250,216	8,005	—	258,221
Selling, general and administrative	—	188,148	196,499	(7,401)	377,246
Total expenses	—	663,535	728,191	(7,269)	1,384,457
Operating income (loss)	—	192,930	(357,351)	—	(164,421)
Interest expense	—	(23,621)	(1,199)	—	(24,820)
Other income, net	(178,998)	—	10,243	178,998	10,243
Income (loss) before taxes	(178,998)	169,309	(348,307)	178,998	(178,998)
Income taxes (benefit)	(69,755)	66,031	(135,786)	69,755	(69,755)
Net income (loss)	$ (109,243)	$ 103,278	$ (212,521)	$ 109,243	$ (109,243)

Condensed Consolidating Balance Sheets (in 000s)

October 31, 2006	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Elims	Consolidated H&R Block
Cash & cash equivalents	$ —	$ 200,417	$ 241,856	$ —	$ 442,273
Cash & cash equivalents — restricted	—	393,563	23,292	—	416,855
Receivables from customers, brokers and dealers, net	—	413,237	—	—	413,237
Receivables, net	108	104,626	308,586	—	413,320
Mortgage loans held for sale	—	432,064	—	—	432,064
Mortgage loans held for investment	—	683,839	—	—	683,839
Intangible assets and goodwill, net	—	368,788	962,232	—	1,331,020
Investments in subsidiaries	4,840,520	215	—	(4,840,520)	215
Other assets	—	1,355,454	718,745	(131)	2,074,068
Total assets	$ 4,840,628	$ 3,952,203	$ 2,254,711	$ (4,840,651)	$ 6,206,891
Commercial paper	$ —	$ 1,040,429	$ —	$ —	$ 1,040,429
Accts. payable to customers, brokers and dealers	—	700,673	—	—	700,673
Customer deposits	—	595,769	—	—	595,769
Long-term debt	—	398,118	13,587	—	411,705
Other liabilities	2	1,009,214	820,470	—	1,829,686
Net intercompany advances	3,211,997	(1,557,872)	(1,654,125)	—	—
Stockholders' equity	1,628,629	1,765,872	3,074,779	(4,840,651)	1,628,629
Total liabilities and stockholders' equity	$ 4,840,628	$ 3,952,203	$ 2,254,711	$ (4,840,651)	$ 6,206,891

April 30, 2006	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Elims	Consolidated H&R Block
Cash & cash equivalents	$ —	$ 151,561	$ 542,797	$ —	$ 694,358
Cash & cash equivalents — restricted	—	377,445	16,624	—	394,069
Receivables from customers, brokers and dealers, net	—	496,577	—	—	496,577
Receivables, net	161	128,123	339,393	—	467,677
Intangible assets and goodwill, net	—	387,194	932,752	—	1,319,946
Investments in subsidiaries	5,237,611	215	456	(5,237,611)	671
Other assets	—	2,116,900	499,477	(540)	2,615,837
Total assets	$ 5,237,772	$ 3,658,015	$ 2,331,499	$ (5,238,151)	$ 5,989,135
Accts. payable to customers, brokers and dealers	$ —	$ 781,303	$ —	$ —	$ 781,303
Long-term debt	—	398,001	19,538	—	417,539
Other liabilities	2	1,042,611	1,599,881	—	2,642,494
Net intercompany advances	3,089,971	(355,358)	(2,734,567)	(46)	—
Stockholders' equity	2,147,799	1,791,458	3,446,647	(5,238,105)	2,147,799
Total liabilities and stockholders' equity	$ 5,237,772	$ 3,658,015	$ 2,331,499	$ (5,238,151)	$ 5,989,135

Condensed Consolidating Statements of Cash Flows (in 000s)

Six months ended October 31, 2006	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Elims	Consolidated H&R Block
Net cash provided by (used in) operating activities:	$ 29,170	$ (83,836)	$ (1,135,626)	$ —	$ (1,190,292)
Cash flows from investing:					
Cash received on residuals	—	6,422	—	—	6,422
Mortgage loans originated for investment, net	—	(278,003)	—	—	(278,003)
Purchase property & equipment	—	(12,285)	(82,502)	—	(94,787)
Payments for business acquisitions	—	—	(13,609)	—	(13,609)
Net intercompany advances	216,983	—	—	(216,983)	—
Other, net	—	—	8,088	—	8,088
Net cash provided by (used in) investing activities	216,983	(283,866)	(88,023)	(216,983)	(371,889)
Cash flows from financing:					
Repayments of commercial paper	—	(2,295,573)	—	—	(2,295,573)
Proceeds from commercial paper	—	3,336,002	—	—	3,336,002
Customer deposits	—	595,769	—	—	595,769
Dividends paid	(84,225)	—	—	—	(84,225)
Acquisition of treasury shares	(186,560)	—	—	—	(186,560)
Proceeds from stock options	10,640	—	—	—	10,640
Excess tax benefits on stock-based compensation	1,567	—	—	—	1,567
Net intercompany advances	—	(1,202,514)	985,531	216,983	—
Other, net	12,425	(17,126)	(62,823)	—	(67,524)
Net cash provided by (used in) financing activities	(246,153)	416,558	922,708	216,983	1,310,096
Net increase (decrease) in cash	—	48,856	(300,941)	—	(252,085)
Cash — beginning of period	—	151,561	542,797	—	694,358
Cash — end of period	$ —	$ 200,417	$ 241,856	$ —	$ 442,273

Six months ended October 31, 2005	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Elims	Consolidated H&R Block
Net cash provided by (used in) operating activities:	$ 24,257	$ (229,003)	$ (500,113)	$ —	$ (704,859)
Cash flows from investing:					
Cash received on residuals	—	64,377	—	—	64,377
Cash received on sale of residuals	—	30,497	—	—	30,497
Purchase property & equipment	—	(20,228)	(57,407)	—	(77,635)
Payments for business acquisitions	—	(2,948)	(197,361)	—	(200,309)
Net intercompany advances	264,868	—	—	(264,868)	—
Other, net	—	—	13,151	—	13,151
Net cash provided by (used in) investing activities	264,868	71,698	(241,617)	(264,868)	(169,919)
Cash flows from financing:					
Repayments of commercial paper	—	(1,101,729)	—	—	(1,101,729)
Proceeds from commercial paper	—	1,599,904	—	—	1,599,904
Dividends paid	(77,381)	—	—	—	(77,381)
Acquisition of treasury shares	(259,745)	—	—	—	(259,745)
Proceeds from common stock	42,663	—	—	—	42,663
Net intercompany advances	—	(322,298)	57,430	264,868	—
Other, net	5,338	3,390	(45,385)	—	(36,657)
Net cash provided by (used in) financing activities	(289,125)	179,267	12,045	264,868	167,055
Net increase (decrease) in cash	—	21,962	(729,685)	—	(707,723)
Cash — beginning of period	—	162,983	937,230	—	1,100,213
Cash — end of period	$ —	$ 184,945	$ 207,545	$ —	$ 392,490

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, mortgage 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. Our Mortgage Services segment offers a full range of home mortgage services through OOMC. 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), full-service banking through HRB Bank and mortgage services through HRBMC.

As announced November 6, 2006, we are evaluating strategic alternatives for OOMC, including a possible sale or other transaction through the public markets. Any proposed transaction will be subject to approval by our Board of Directors. We also announced an additional restructuring plan within our mortgage operations, including closure of twelve offices and affecting approximately 300 positions. Liabilities and charges for this restructuring, which we expect to be between $10 million and $12 million, will be recorded primarily during our third and fourth quarters.

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.

The analysis that follows should be read in conjunction with the tables below and the condensed consolidated income statements found on page 2.

Tax Services — Operating Results				(in 000s)
	Three months ended October 31,		Six months ended October 31,	
	2006	2005	2006	2005
Service revenues:				
Tax preparation and related fees	$ 44,332	$ 40,185	$ 69,994	$ 63,822
Other services	31,211	32,264	66,239	61,231
	75,543	72,449	136,233	125,053
Royalties	4,458	4,161	7,381	6,557
Other	2,096	4,203	4,518	6,394
Total revenues	82,097	80,813	148,132	138,004
Cost of services:				
Compensation and benefits	59,303	51,917	105,143	94,509
Occupancy	70,156	62,283	137,827	121,596
Depreciation	9,709	10,328	18,963	20,497
Other	42,165	39,065	90,402	79,032
	181,333	163,593	352,335	315,634
Other, selling, general and administrative	68,206	60,084	116,387	109,740
Total expenses	249,539	223,677	468,722	425,374
Pretax loss	$ (167,442)	$ (142,864)	$ (320,590)	$ (287,370)

Three months ended October 31, 2006 compared to October 31, 2005

Tax Services' revenues increased $1.3 million, or 1.6%, for the three months ended October 31, 2006 compared to the prior year.

Tax preparation and related fees increased $4.1 million, or 10.3%, for the current quarter. This increase is primarily due to improved performance in our Australian operations coupled with an increase of 8.4% in the net average fee per U.S. client served.

Total expenses increased $25.9 million, or 11.6%, for the three months ended October 31, 2006. Cost of services increased $17.7 million, or 10.8%, from the prior year. Our real estate expansion efforts have contributed to a total increase of $6.8 million across all cost of services categories. Compensation and benefits increased $7.4 million, or 14.2%, primarily due to costs associated with our earlier office openings and initiatives addressing operational readiness for the upcoming tax season. Occupancy expenses increased $7.9 million, or 12.6%, primarily as a result of higher rent expenses due to an 8.2% increase in company-owned offices under lease and a 4.9% increase in the average rent. Other cost of services increased $3.1 million, or 7.9%, due to claims expenses associated with our POM guarantees, coupled with additional corporate shared services for information technology projects and higher travel expenses.

Selling, general and administrative expenses increased $8.1 million, or 13.5%, primarily due to a $6.5 million increase in corporate shared services and a $4.3 million increase in corporate wages. Both of these increases were principally technology-related to support operational readiness for the upcoming tax season.

The pretax loss was $167.4 million for the three months ended October 31, 2006 compared to a loss of $142.9 million in the prior year.

Six months ended October 31, 2006 compared to October 31, 2005

Tax Services' revenues increased $10.1 million, or 7.3%, for the six months ended October 31, 2006 compared to the prior year.

Tax preparation and related fees increased $6.2 million, or 9.7%, for the current period. This increase is primarily due to an increase of 8.1% in the net average fee per U.S. client served coupled with improved performance in our Australian and Canadian operations.

Other service revenues increased $5.0 million, or 8.2%, primarily due to an increase in the recognition of deferred fee revenue from our POM guarantees, which resulted from an increase in claims.

Total expenses increased $43.3 million, or 10.2%, for the six months ended October 31, 2006. Cost of services increased $36.7 million, or 11.6%, from the prior year. Our real estate expansion efforts have contributed to a total increase of $12.2 million across all cost of services categories. Compensation and benefits increased $10.6 million, or 11.3%, primarily due to costs associated with our earlier office openings and initiatives addressing operational readiness for the upcoming tax season. Occupancy expenses increased $16.2 million, or 13.3%, primarily as a result of higher rent expenses due to an 8.7% increase in company-owned offices under lease and a 5.2% increase in the average rent. Other cost of services increased $11.4 million, or 14.4%, due to $5.5 million in additional corporate shared services for information technology projects, coupled with increases in claims expenses associated with our POM guarantee and travel expenses.

Selling, general and administrative expenses increased $6.6 million, or 6.1%, primarily due to a $7.2 million increase in corporate wages, primarily technology support personnel to support operational readiness for the upcoming tax season. An increase of $3.8 million in corporate shared services was partially offset by a $4.3 million decrease in legal expenses.

The pretax loss was $320.6 million for the six months ended October 31, 2006 compared to a loss of $287.4 million in the prior year.

RAL Litigation

We are named as a defendant in putative class-action lawsuits and a pending state attorney general lawsuit alleging that we engaged in wrongdoing with respect to the RAL program. We believe we have meritorious defenses to these lawsuits and will vigorously defend our position. Nevertheless, the amounts claimed in these lawsuits are, in some instances, very substantial. In fiscal year 2006, we entered into settlement agreements regarding several RAL Cases, with the combined pretax expense for such settlements totaling $70.2 million. There can be no assurances as to the ultimate outcome of the remaining pending RAL Cases, or as to their impact on our financial statements. See additional discussion of RAL Litigation in note 10 to the consolidated financial statements and in Part II, Item 1, "Legal Proceedings."

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MORTGAGE SERVICES

This segment is primarily engaged in the origination and acquisition of non-prime mortgage loans through an independent broker network and its relationship with HRBMC, the sale and securitization of mortgage loans and residual interests, and the servicing of non-prime loans.

Mortgage Services — Operating Statistics (dollars in 000s)

	Three months ended October 31, 2006	Three months ended October 31, 2005	Six months ended October 31, 2006	Six months ended October 31, 2005
Volume of loans originated and purchased:				
Third-party brokers	$ 6,149,293	$ 11,078,960	$ 13,356,925	$ 20,616,187
Intersegment (HRBMC)	471,182	1,111,924	1,055,607	2,062,730
	$ 6,620,475	$ 12,190,884	$ 14,412,532	$ 22,678,917
Loan characteristics:				
Weighted average FICO score	611	629	613	626
Weighted average interest rate for borrowers (WAC)	8.75%	7.48%	8.71%	7.50%
Weighted average loan-to-value	82.2%	80.6%	82.4%	80.8%
Origination margin (% of origination volume): (1)				
Loan sale premium	1.48%	0.44%	1.55%	1.12%
Residual cash flows from beneficial interest in Trusts	0.29%	0.43%	0.44%	0.64%
Gain (loss) on derivative instruments	(0.44%)	0.53%	(0.12%)	0.41%
Loan sale repurchase reserves	(0.69%)	(0.16%)	(0.96%)	(0.16%)
Retained mortgage servicing rights	0.65%	0.71%	0.64%	0.60%
	1.29%	1.95%	1.55%	2.61%
Cost of acquisition	(0.52%)	(0.88%)	(0.52%)	(0.97%)
Direct origination expenses	(0.40%)	(0.44%)	(0.42%)	(0.45%)
Net gain on sale — gross margin (2)	0.37%	0.63%	0.61%	1.19%
Other revenues	(0.05%)	0.02%	(0.04%)	0.01%
Other cost of origination	(1.19%)	(0.85%)	(1.09%)	(0.89%)
Net margin	(0.87%)	(0.20%)	(0.52%)	0.31%
Total cost of origination (1)	1.59%	1.29%	1.51%	1.34%
Total cost of origination and acquisition	2.11%	2.17%	2.03%	2.31%
Loan delivery:				
Loan sales:				
Third-party buyers	$ 6,228,161	$ 12,067,658	$ 13,882,606	$ 22,511,068
Intersegment (HRB Bank)	169,622	—	723,124	—
	$ 6,397,783	$ 12,067,658	$ 14,605,730	$ 22,511,068
Execution price (3)	1.67%	1.63%	1.53%	2.09%

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

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

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

Mortgage Services — Operating Results

(in 000s)	Three months ended October 31, 2006	2005	Six months ended October 31, 2006	2005
Components of gains on sales:				
Gain on mortgage loans	$ 54,125	$ 21,942	$ 104,473	$ 190,910
Gain (loss) on derivatives	(29,359)	55,067	(16,839)	79,014
Gain on sales of residual interests	—	28,675	—	28,675
Impairment of residual interests	(12,236)	(8,738)	(29,502)	(20,613)
	12,530	96,946	58,132	277,986
Interest income:				
Accretion — residual interests	12,878	33,564	26,387	64,341
Other	1,452	4,605	2,977	7,373
	14,330	38,169	29,364	71,714
Loan servicing revenue	113,684	100,386	222,724	190,655
Other	32	250	32	443
Total revenues	140,576	235,751	310,252	540,798
Cost of services	79,625	67,811	158,313	132,203
Cost of other revenues:				
Compensation and benefits	38,738	54,108	72,922	104,937
Occupancy	4,757	7,034	9,263	16,602
Other	14,777	23,946	35,509	44,069
	58,272	85,088	117,694	165,608
Selling, general and administrative	41,720	34,052	78,210	63,523
Total expenses	179,617	186,951	354,217	361,334
Pretax income (loss)	$ (39,041)	$ 48,800	$ (43,965)	$ 179,464

Three months ended October 31, 2006 compared to October 31, 2005

Mortgage Services' revenues decreased $95.2 million, or 40.4%, for the three months ended October 31, 2006 compared to the prior year.

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

Three months ended October 31, (dollars in 000s)	2006	2005
Application process:		
Total number of applications	67,330	101,297
Number of sales associates (1)	1,825	2,473
Closing ratio (2)	48.6%	63.6%
Originations:		
Total number of loans originated/acquired	32,723	64,440
WAC	8.75%	7.48%
Average loan size	$ 202	$ 189
Total volume of loans originated/acquired	$ 6,620,475	$ 12,190,884
Direct origination and acquisition expenses, net	$ 60,786	$ 161,028
Revenue (loan value):		
Net gain on sale — gross margin (3)	0.37%	0.63%

(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 loans net of derivative activities, decreased $52.2 million, primarily due to lower origination volumes and higher loss provisions for loan repurchases recorded during the current quarter, partially offset by improved loan sale premiums and cost of acquisition.

Premium on loan sales increased to 1.48%, up 104 basis points over the prior year primarily due to favorable interest rates and a higher WAC. Our WAC increased 127 basis points, up to 8.75% from 7.48% in the prior year. Market interest rates, based on the two-year swap, increased from an average of 4.46% last year to 5.24% in the current quarter.

To mitigate the risk of short-term changes in market interest rates related to our loan originations, including our rate-lock equivalents and beneficial interest in Trusts, we use interest rate swaps, put options on Eurodollar futures and forward loan sale commitments. We generally enter into interest rate swap arrangements related to existing loan applications and applications we expect to receive prior to our next anticipated change in rates charged to borrowers. During the quarter, we recorded a net $29.4 million in losses, compared to gains of $55.1 million in the prior year, related to our various derivative instruments. The loss for the current quarter was caused by market interest rates, based on the two-year swap, declining 33 basis points compared to an increase of 43 basis points during the prior year quarter. See note 5 to the condensed consolidated financial statements.

During the quarter we continued to experience higher early payment defaults, resulting in an increase in actual and expected loan repurchase activity. As a result, we recorded total loss provisions of $45.8 million during the three months ended October 31, 2006 compared to $17.2 million in the prior year. The provision recorded in the current quarter consists of $33.2 million recorded on loans sold during the current quarter and, due primarily to increases in our estimated loss severity assumption, also included $12.6 million related to loans sold in prior quarters. Loss provisions as a percent of loan volumes increased 53 basis points over the prior year. See additional discussion of our reserves and repurchase obligations in note 9 to our condensed consolidated financial statements.

The value of MSRs recorded in the second quarter decreased to 65 basis points from 71 basis points in the prior year due to changes in our assumptions used to value MSRs and other factors. This decrease, coupled with a decline in origination volumes, resulted in a net decrease of $44.2 million in gains on sales of mortgage loans. See additional discussion of our MSR assumptions in Item 1, note 3 to the condensed consolidated financial statements and in Item 2, "Critical Accounting Policies."

Our cost of acquisition improved 36 basis points to 0.52% primarily as a result of a decrease in the cost to acquire loans from HRBMC and lower third-party broker commissions. Our total cost of origination increased 30 basis points to 1.59% primarily due to a 45.7% decline in origination volumes.

For the three months ended October 31, 2006, gains on sales of mortgage loans includes $4.1 million in gains on sales of loans to HRB Bank and $10.6 million in acquisition costs paid to HRBMC to purchase its non-prime loans, both of which are eliminated in consolidation.

During the current quarter, we recorded impairments of $12.2 million in gains on sales of mortgage assets. We also recorded favorable pretax mark-to-market adjustments in other comprehensive income, which increased the fair value of our residual interests $8.4 million during the quarter. These adjustments were recorded net of write-downs of $0.8 million and deferred taxes of $2.9 million, and will be accreted into income throughout the remaining life of those residual interests. Future changes in interest rates or other assumptions, based on market conditions or actual loan pool performance, could cause additional adjustments to the fair value of the residual interests and could cause changes to the accretion of these residual interests in future periods. In the prior year we also recorded a $28.7 million gain on the sale of residual interests.

Accretion of residual interests of $12.9 million for the three months ended October 31, 2006 represents a decrease of $20.7 million from the prior year. This decrease is primarily due to the sale of previously securitized residual interests during fiscal year 2006 and lower write-ups to residual interest balances.

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

(dollars in 000s)		
Three months ended October 31,	2006	2005
Average servicing portfolio:		
With related MSRs	$64,068,803	$55,150,897
Without related MSRs	9,896,993	22,065,265
	$73,965,796	$77,216,162
Ending servicing portfolio:		
With related MSRs	$63,904,746	$57,760,815
Without related MSRs	9,115,001	24,614,920
	$73,019,747	$82,375,735
Number of loans serviced	427,590	500,935
Average delinquency rate	8.69%	4.37%
Weighted average FICO score	621	622
Weighted average interest rate (WAC) of portfolio	8.06%	7.47%
Carrying value of MSRs	$ 269,679	$ 245,928

Loan servicing revenues increased $13.3 million, or 13.2%, compared to the prior year. The increase reflects a higher annualized rate earned on our servicing portfolio. The annualized rate earned on our entire servicing portfolio was 36 basis points for the current quarter, compared to 33 basis points in the prior year. This increase was partially offset by a decline in our average servicing portfolio, which decreased $3.3 billion, or 4.2%, to $74.0 billion.

Total expenses for the three months ended October 31, 2006 declined $7.3 million, or 3.9%, from the prior year. Cost of services increased $11.8 million as a result of increased amortization of MSRs.

Cost of other revenues decreased $26.8 million, primarily due to $15.4 million in lower compensation and benefits as a result of the restructuring in the prior year. Occupancy expenses decreased $2.3 million primarily due to the closing of certain offices during the fourth quarter of fiscal year 2006. Other expenses decreased $9.2 million, also due primarily to the restructuring in the prior year.

Selling, general and administrative expenses increased $7.7 million due primarily to a $2.5 million reduction in costs allocated to HRBMC and higher consulting expenses.

The pretax loss for the three months ended October 31, 2006 was $39.0 million compared to income of $48.8 million in the prior year.

Six months ended October 31, 2006 compared to October 31, 2005

Mortgage Services' revenues decreased $230.5 million, or 42.6%, for the six months ended October 31, 2006 compared to the prior year.

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

(dollars in 000s)		
Six months ended October 31,	2006	2005
Application process:		
Total number of applications	138,048	207,384
Number of sales associates (1)	1,825	2,473
Closing ratio (2)	51.3%	61.6%
Originations:		
Total number of loans originated/acquired	70,756	127,802
WAC	8.71%	7.50%
Average loan size	$ 204	$ 177
Total volume of loans originated/acquired	$14,412,532	$22,678,917
Direct origination and acquisition expenses, net	$ 135,381	$ 321,048
Revenue (loan value):		
Net gain on sale — gross margin (3)	0.61%	1.19%

(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 loans, net of derivative activities, decreased $182.3 million from the prior year. This decrease resulted primarily from lower origination volumes and higher loss provisions for loan repurchases recorded during the current year, partially offset by improved loan sale premiums, cost of acquisition and MSR gains.

Our WAC increased 121 basis points, up to 8.71% from 7.50% in the prior year. Market interest rates, based on the two-year swap, increased from an average of 4.26% last year to 5.38% in the current year. These changes in interest rates caused our premium on loan sales to increase 43 basis points, to 1.55% from 1.12% last year.

During the current year, we recorded a net $16.8 million in losses, compared to gains of $79.0 million in the prior year, related to our various derivative instruments. The loss for the current year was caused by market interest rates, based on the two-year swap, declining 23 basis points compared to an increase of 80 basis points during the prior year. See note 5 to the condensed consolidated financial statements.

During the current year we experienced higher early payment defaults, resulting in an increase in actual and expected loan repurchase activity. As a result, we recorded total loss provisions of $138.6 million during the six months ended October 31, 2006 compared to $31.4 million in the prior year. The provision recorded in the current year consists of $76.6 million recorded on loans sold during the current period and $62.0 million related to loans sold in prior periods. Loss provisions as a percent of loan volumes increased 80 basis points over the prior year. See additional discussion of our reserves and repurchase obligations in note 9 to our condensed consolidated financial statements.

The value of MSRs recorded in the current year increased to 64 basis points from 60 basis points in the prior year due to changes in our assumptions used to value MSRs and other factors. However, this increase was offset by a decline in origination volumes, which resulted in a net decrease of $43.4 million in gains on sales of mortgage loans. See additional discussion of our MSR assumptions in note 3 to the condensed consolidated financial statements and in Item 2, "Critical Accounting Policies."

Our cost of acquisition improved 45 basis points to 0.52% primarily as a result of a decrease in the cost to acquire loans from HRBMC and lower third-party broker commissions. Our total cost of origination increased 17 basis points to 1.51% primarily due to lower origination volumes.

For the six months ended October 31, 2006, gains on sales of mortgage loans includes $14.4 million in gains on sales of loans to HRB Bank and $19.1 million in acquisition costs paid to HRBMC to purchase its non-prime loans, both of which are eliminated in consolidation.

During the current year, we recorded impairments of $29.5 million in gains on sales of mortgage assets due to higher credit losses and interest rates. We also recorded favorable pretax mark-to-market adjustments in other comprehensive income, which increased the fair value of our residual interests $11.8 million during the current year. These adjustments were recorded net of write-downs of $3.7 million and deferred taxes of $3.1 million, and will be accreted into income throughout the remaining life of those residual interests. In the prior year we also recorded a $28.7 million gain on the sale of residual interests.

Accretion of residual interests of $26.4 million for the six months ended October 31, 2006 represents a decrease of $38.0 million from the prior year. This decrease is primarily due to the sale of previously securitized residual interests during fiscal year 2006 and lower write-ups to residual interest balances.

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

(dollars in 000s)

Six months ended October 31,	2006	2005
Average servicing portfolio:		
With related MSRs	$63,802,118	$52,515,036
Without related MSRs	10,107,535	21,363,081
	$73,909,653	$73,878,117
Ending servicing portfolio:		
With related MSRs	$63,904,746	$57,760,815
Without related MSRs	9,115,001	24,614,920
	$73,019,747	$82,375,735
Number of loans serviced	427,590	500,935
Average delinquency rate	8.01%	4.69%
Weighted average FICO score	621	621
Weighted average interest rate (WAC) of portfolio	7.99%	7.41%
Carrying value of MSRs	$ 269,679	$ 245,928

Loan servicing revenues increased $32.1 million, or 16.8%, compared to the prior year. The increase reflects a higher annualized rate earned on our servicing portfolio. The annualized rate earned on our entire servicing portfolio was 36 basis points for the current year, compared to 33 basis points in the prior year.

Total expenses for the six months ended October 31, 2006 declined $7.1 million, or 2.0%, from the prior year. Cost of services increased $26.1 million as a result of increased amortization of MSRs.

Cost of other revenues decreased $47.9 million, primarily due to $32.0 million in lower compensation and benefits as a result of the restructuring in the prior year. Occupancy expenses decreased $7.3 million primarily due to the closing of certain offices during the fourth quarter of fiscal year 2006. Other expenses decreased $8.6 million, also due primarily to the restructuring in the prior year.

Selling, general and administrative expenses increased $14.7 million due primarily to a $6.4 million reduction in costs allocated to HRBMC, coupled with increases in depreciation and consulting expenses.

The pretax loss for the six months ended October 31, 2006 was $44.0 million compared to income of $179.5 million in the prior year.

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BUSINESS SERVICES

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

Business Services — Operating Statistics

	Three months ended October 31, 2006	2005	Six months ended October 31, 2006	2005
Accounting, tax and consulting:				
Chargeable hours	1,196,377	768,740	2,221,026	1,316,731
Chargeable hours per person	308	310	584	580
Net billed rate per hour	$ 148	$ 139	$ 146	$ 137
Average margin per person	$ 24,492	$ 22,913	$ 43,798	$ 40,327

Business Services — Operating Results (in 000s)

	Three months ended October 31, 2006	2005	Six months ended October 31, 2006	2005
Service revenues:				
Accounting, tax and consulting	$ 190,546	$ 121,790	$ 352,396	$ 205,618
Capital markets	16,447	15,355	30,107	30,827
Payroll, benefits and retirement services	7,992	8,617	15,402	16,894
Other services	2,874	11,113	15,807	20,995
	217,859	156,875	413,712	274,334
Other	11,244	9,930	20,522	19,317
Total revenues	229,103	166,805	434,234	293,651
Cost of services:				
Compensation and benefits	142,412	94,894	264,031	166,541
Occupancy	19,529	11,012	38,837	19,175
Other	26,365	16,388	48,220	30,436
	188,306	122,294	351,088	216,152
Amortization of intangible assets	4,126	3,805	9,005	7,608
Other, selling, general and administrative	55,415	42,849	107,450	78,799
Total expenses	247,847	168,948	467,543	302,559
Pretax loss	$ (18,744)	$ (2,143)	$ (33,309)	(8,908)

Three months ended October 31, 2006 compared to October 31, 2005

Business Services' revenues for the three months ended October 31, 2006 increased $62.3 million, or 37.3%, from the prior year. This increase was primarily due a $68.8 million increase in accounting, consulting and tax revenue, primarily attributable to the acquisition of American Express Tax and Business Services, Inc. (AmexTBS) as of October 1, 2005.

Other service revenues decreased $8.2 million primarily due to a decline in revenue in our financial process outsourcing business.

Total expenses increased $78.9 million, or 46.7%, for the three months ended October 31, 2006 compared to the prior year. Cost of services increased $66.0 million, due to increases in compensation and benefits and occupancy expenses. Compensation and benefits increased $47.5 million, primarily due to the AmexTBS acquisition. Increases in the number of personnel and the average wage per employee, driven by marketplace competition for professional staff, also contributed to the increase. Occupancy expenses and other expenses increased $8.5 million and $10.0 million, respectively, primarily due to the AmexTBS acquisition.

Selling, general and administrative expenses increased $12.6 million, or 29.3%, primarily due to acquisitions and additional costs associated with our business development initiatives.

The pretax loss for the three months ended October 31, 2006 of $18.7 million compares to a pretax loss of $2.1 million in the prior year. The increased pretax loss is primarily due to higher losses in our financial process outsourcing and payroll businesses, coupled with additional expenditures for brand initiatives.

Six months ended October 31, 2006 compared to October 31, 2005

Business Services' revenues for the six months ended October 31, 2006 increased $140.6 million, or 47.9%, from the prior year. This increase was primarily due to the acquisition of AmexTBS, which increased accounting, tax and consulting revenues $122.6 million.

Total expenses increased $165.0 million, or 54.5%, for the six months ended October 31, 2006 compared to the prior year. Cost of services increased $134.9 million, due to increases in compensation and benefits and occupancy expenses. Compensation and benefits increased $97.5 million, primarily due to the AmexTBS acquisition. Increases in the number of personnel and the average wage per employee, driven by marketplace competition for professional staff, also contributed to the increase. Occupancy expenses and other expenses increased $19.7 million and $17.8 million, respectively, primarily due to the AmexTBS acquisition.

Selling, general and administrative expenses increased $28.7 million primarily due to acquisitions and additional costs associated with our business development initiatives.

The pretax loss for the six months ended October 31, 2006 of $33.3 million compares to a pretax loss of $8.9 million in the prior year. The increased pretax loss is primarily due to higher losses in our financial process outsourcing and payroll businesses, additional expenditures for brand initiatives and, to a lesser extent, off-season losses of AmexTBS.

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CONSUMER FINANCIAL SERVICES

This segment is primarily engaged in offering advice-based brokerage services and investment planning through HRBFA, full-service banking through HRB Bank and prime and non-prime mortgage loans through HRBMC. HRBFA, HRB Bank and HRBMC, our "Block-branded" businesses, are focused on increasing client loyalty and retention by offering expanded financial services to our retail tax clients. HRBFA offers our customers 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. HRB Bank offers traditional banking services including checking and savings accounts, home equity lines of credit, individual retirement accounts, certificates of deposit and prepaid debit card accounts. HRB Bank also purchases loans from OOMC, HRBMC and other lenders to hold for investment purposes and HRBFA utilizes HRB Bank for certain FDIC-insured deposits for its customers. HRBMC originates mortgage loans for sale to OOMC, HRB Bank or other third-party buyers.

Consumer Financial Services — Operating Statistics

	Three months ended October 31, 2006	Three months ended October 31, 2005	Six months ended October 31, 2006	Six months ended October 31, 2005
Broker-dealer:				
Traditional brokerage accounts [1]	402,278	428,543	402,278	428,543
New traditional brokerage accounts funded by HRB Tax clients	2,154	3,234	5,155	7,458
Cross-service revenue as a percent of total production revenue	16.1%	15.6%	16.8%	16.5%
Average assets per traditional brokerage account	$ 80,089	$ 68,837	$ 80,089	$ 68,837
Average margin balances (millions)	$ 404	$ 560	$ 427	$ 567
Average customer payable balances (millions)	$ 601	$ 794	$ 623	$ 817
Number of advisors	919	995	919	995
Banking:				
Efficiency ratio [2]	40%	N/A	38%	N/A
Annualized net interest margin [3]	2.68%	N/A	3.05%	N/A
Annualized return on average assets [4]	1.48%	N/A	1.35%	N/A
Total assets (thousands)	$762,074	N/A	$ 762,074	N/A
Loans purchased from OOMC (thousands)	$169,622	N/A	$ 723,124	N/A
Retail mortgage activities:				
Volume of loans originated (thousands):				
Total	$769,344	$1,541,848	$1,613,658	$2,892,250
Loans originated to HRB Tax clients	$123,405	$ 220,056	$ 263,648	$ 546,577
Average loan size (thousands)	$ 171	$ 152	$ 173	$ 150
Loans sold to OOMC (thousands)	$471,182	$1,111,924	$1,055,607	$2,062,730

(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 October 31,		Six months ended October 31,	
	2006	2005	2006	2005
Service revenues:				
Financial advisor production revenue	$ 45,444	$ 46,394	$ 92,463	$ 91,500
Other	9,212	8,064	17,580	16,271
	54,656	54,458	110,043	107,771
Gain on sale of mortgage loans, net	30,756	51,593	60,138	107,990
Net interest revenue on:				
Margin lending and other	13,030	13,335	26,772	26,072
Banking activities	4,392	—	8,121	—
	17,422	13,335	34,893	26,072
Loan loss reserves – mortgage loans held for investment	(364)	—	(1,702)	—
Other	427	813	783	1,390
Total revenues (1)	102,897	120,199	204,155	243,223
Cost of services:				
Compensation and benefits	32,458	32,676	64,322	63,211
Occupancy	4,847	5,187	9,908	10,352
Other	5,193	5,541	10,358	10,476
	42,498	43,404	84,588	84,039
Cost of other revenues	12,800	38,203	26,640	73,371
Amortization of intangible assets	9,156	9,156	18,312	18,312
Selling, general and administrative	45,083	39,903	89,035	81,716
Total expenses	109,537	130,666	218,575	257,438
Pretax loss	$ (6,640)	$ (10,467)	$ (14,420)	$ (14,215)

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

Three months ended October 31, 2006 compared to October 31, 2005

Consumer Financial Services' revenues, net of interest expense and loan loss reserves, for the three months ended October 31, 2006 decreased $17.3 million, or 14.4%, from the prior year, primarily due to lower gains on sales of mortgage loans.

Financial advisor production revenue, which consists primarily of fees earned on assets under administration and commissions on customer trades, was down $1.0 million from the prior year, as higher annuitized revenues were offset by declining transactional revenues. The following table summarizes the key drivers of production revenue:

Three months ended October 31,	2006	2005
Customer trades	215,289	233,262
Average revenue per trade	$ 121.86	$ 123.16
Ending balance of assets under administration (billions)	$ 32.5	$ 29.8
Annualized productivity per advisor	$ 187,000	$ 180,000

Gain on sale of mortgage loans decreased $20.8 million, or 40.4%, from the prior year primarily due to a 50.1% decline in origination volumes, partially offset by higher margins on mortgage loans sold. Origination volumes fell primarily due to a decline in applications as well as a decline in the closing ratio. HRBMC sells its non-prime loans to OOMC and its prime loans to other third-party buyers. For the three months ended October 31, 2006, gains on sales of mortgage loans includes $10.6 million in gains on loans sold to OOMC, which is eliminated in consolidation.

Net interest revenue on banking activities totaled $4.4 million for the three months ended October 31, 2006. The following table summarizes the key drivers of net interest revenue on banking activities:

		(in 000s)
Three months ended October 31,	2006	2005
Average loans	$ 612,055	N/A
Average investments	$ 38,641	N/A
Average deposits	$ 492,315	N/A

Total segment expenses decreased $21.1 million, or 16.2%, from the prior year. Cost of other revenues decreased $25.4 million, or 66.5%, primarily as a result of the restructuring of our mortgage operations in fiscal year 2006.

Selling, general and administrative expenses increased $5.2 million, or 13.0%, primarily due to the expenses of HRB Bank, which opened May 1, 2006.

The pretax loss for Consumer Financial Services for the three months ended October 31, 2006 was $6.6 million compared to the prior year loss of $10.5 million.

Six months ended October 31, 2006 compared to October 31, 2005

Consumer Financial Services' revenues, net of interest expense and loan loss reserves, for the six months ended October 31, 2006 decreased $39.1 million, or 16.1%, from the prior year, primarily due to lower gains on sales of mortgage loans.

Financial advisor production revenue, which consists primarily of fees earned on assets under administration and commissions on customer trades, increased $1.0 million over the prior year due primarily to higher annuitized revenues, partially offset by declining transactional revenues. The following table summarizes the key drivers of production revenue:

Six months ended October 31,	2006	2005
Customer trades	439,337	459,640
Average revenue per trade	$ 117.18	$ 124.90
Ending balance of assets under administration (billions)	$ 32.5	$ 29.8
Annualized productivity per advisor	$ 194,000	$ 180,000

Gain on sale of mortgage loans decreased $47.9 million, or 44.3%, from the prior year primarily due to a 44.2% decline in origination volumes, coupled with lower margins on mortgage loans sold. Origination volumes fell primarily due to a decline in applications as well as a decline in the closing ratio. HRBMC sells its non-prime loans to OOMC and its prime loans to other third-party buyers. For the six months ended October 31, 2006, gains on sales of mortgage loans includes $19.1 million in gains on loans sold to OOMC, which is eliminated in consolidation.

Net interest revenue on banking activities totaled $8.1 million for the six months ended October 31, 2006. The following table summarizes the key drivers of net interest revenue on banking activities:

		(in 000s)
Six months ended October 31,	2006	2005
Average loans	$ 496,472	N/A
Average investments	$ 29,793	N/A
Average deposits	$ 369,942	N/A

Total segment expenses decreased $38.9 million, or 15.1%, over the prior year. Cost of other revenues decreased $46.7 million, or 63.7%, primarily as a result of the restructuring of our mortgage operations in fiscal year 2006.

Selling, general and administrative expenses increased $7.3 million, or 9.0%, primarily due to the expenses of HRB Bank, which opened May 1, 2006.

The pretax loss for Consumer Financial Services for the six months ended October 31, 2006 was $14.4 million compared to the prior year loss of $14.2 million.

FINANCIAL CONDITION

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

CAPITAL RESOURCES & LIQUIDITY BY SEGMENT

Our sources of capital include cash from operations, issuances of common stock and debt. We use capital primarily to fund working capital requirements, pay dividends, repurchase our shares and acquire businesses.

Cash From Operations. Cash used in operations totaled $1.2 billion and $704.9 million for the six months ended October 31, 2006 and 2005, respectively. The increase in cash used in operating activities is primarily due to higher losses during the current year, an increase of $143.8 million in income tax payments and increases in mortgage loans held for sale.

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 $17.4 million and $48.0 million for the six months ended October 31, 2006 and 2005, respectively.

Dividends. Dividends paid totaled $84.2 million and $77.4 million for the six months ended October 31, 2006 and 2005, respectively.

Share Repurchases. On June 7, 2006, our Board approved an additional authorization to repurchase 20.0 million shares. During the six months ended October 31, 2006, we repurchased 8.1 million shares pursuant to this authorization and a prior authorization at an aggregate price of $180.9 million or an average price of $22.22 per share. There are 22.4 million shares remaining under these authorizations at October 31, 2006. We plan to continue to purchase shares on the open market in accordance with this authorization, subject to various factors including the price of the stock, the availability of excess cash, our ability to maintain liquidity and financial flexibility, securities law restrictions, targeted capital levels and other investment opportunities available.

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

Restricted Cash. We hold certain cash balances that are restricted as to use. Cash and cash equivalents — restricted totaled $416.9 million at October 31, 2006 compared to $394.1 million at April 30, 2006. Consumer Financial Services held $341.0 million of this total segregated in a special reserve account for the exclusive benefit of its broker-dealer customers. Restricted cash held by Mortgage Services totaled $52.6 million and is held primarily for outstanding commitments to fund mortgage loans. Restricted cash of $23.0 million at October 31, 2006 held by Business Services is related to funds held to pay payroll taxes on behalf of its customers.

Segment Cash Flows. A condensed consolidating statement of cash flows by segment for the six months ended October 31, 2006 follows. Generally, interest is not charged on intercompany activities between segments.

(in 000s)

	Tax Services	Mortgage Services	Business Services	Consumer Financial Services	Corporate	Consolidated H&R Block
Cash provided by (used in):						
Operations	$ (408,842)	$ (132,513)	$ (6,573)	$ 33,718	$ (676,082)	$ (1,190,292)
Investing	(24,697)	2,758	(13,661)	(295,896)	(40,393)	(371,889)
Financing	(44,146)	—	(4,600)	578,643	780,199	1,310,096
Net intercompany	455,383	141,582	11,852	(277,963)	(330,854)	—

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 $408.8 million in its current six-month operations to cover off-season costs and working capital requirements. This segment used $24.7 million in investing

activities primarily related to capital expenditures and acquisitions, and used $44.1 million in financing activities related to book overdrafts.

Mortgage Services. This segment primarily generates cash as a result of the sale and securitization of mortgage loans and residual interests, and as its residual interests begin to cash flow. Mortgage Services used $132.5 million in cash from operating activities primarily due to losses during the current year, and loan originations exceeding loan sales during the six months ended October 31, 2006. Cash flows provided by investing activities consist primarily of $6.4 million in cash receipts on available-for-sale residual interests.

We believe the sources of liquidity available to the Mortgage Services segment are sufficient for its needs.

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 used $6.6 million in operating cash flows during the first six months of the year. Business Services used $13.7 million in investing activities primarily related to capital expenditures and used $4.6 million in financing activities primarily due to payments on acquisition debt.

Consumer Financial Services. In the first six months of fiscal year 2007, Consumer Financial Services provided $33.7 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 customers. The segment also used $295.9 million in investing activities primarily for the purchase of mortgage loans held for investment and provided $578.6 million in financing activities due primarily to $595.8 million in FDIC-insured deposits held at HRB Bank.

To finance our prime mortgage loan originations, we utilize an on-balance sheet warehouse facility with capacity up to $25 million. This annual facility bears interest at one-month LIBOR plus 140 to 200 basis points. As of October 31, 2006 and April 30, 2006, the balance outstanding under this facility was $3.2 million and $1.6 million, respectively.

HRB Bank is a member of the FHLB of Des Moines, which extends credit availability to member banks based on eligible collateral and asset size. At October 31, 2006, HRB Bank had FHLB advance capacity of $266.7 million, but no amounts had been drawn on this facility.

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

OFF-BALANCE SHEET FINANCING ARRANGEMENTS

There have been no material changes in our off-balance sheet financing arrangements from those reported at April 30, 2006 in our Annual Report on Form 10-K.

COMMERCIAL PAPER ISSUANCE AND SHORT-TERM BORROWINGS

There have been no material changes in our commercial paper program from those reported at April 30, 2006 in our Annual Report on Form 10-K.

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

There have been no material changes in our contractual obligations and commercial commitments from those reported at April 30, 2006 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 Federal Deposit Insurance Corporation (FDIC). H&R Block, Inc. is now subject to a three percent minimum ratio of adjusted tangible capital to adjusted total assets, as defined by the OTS, and HRB Bank is subject to various OTS capital requirements. A banking institution’s capital category depends upon where its capital levels are in relation to

relevant capital measures, which include a risk-based capital measure, a leverage ratio capital measure, a tangible equity ratio measure, and certain other factors. See note 8 to the condensed consolidated financial statements for additional discussion of regulatory capital requirements and classifications.

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

Other than the items discussed above, there have been no material changes in our regulatory environment from those reported at April 30, 2006 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, 2006. 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

We sell substantially all of the non-prime mortgage loans we originate to warehouse trusts (the 'Trusts") which are qualifying special purpose entities (QSPEs), with servicing rights generally retained. Prime mortgage loans are sold in loan sales, servicing released, to third-party buyers. Gains on sales of mortgage assets are recognized when control of the assets is surrendered (when loans are sold to third-party buyers, including the Trusts) and are based on the difference between net proceeds received (cash proceeds less recourse obligations) and the allocated cost of the assets sold. We determine the allocated cost of assets sold based on the relative fair values of net proceeds (i.e. the loans sold), retained MSRs and the beneficial interest in Trusts, which represents our residual interest in the ultimate expected outcome from the disposition of the loans by the Trusts.

The following is an example of a hypothetical gain on sale calculation:

		(in 000s)
Acquisition cost of underlying mortgage loans		$ 1,000,000
Fair values:		
Net proceeds		
Cash received	$ 999,000	
Less recourse obligation	(4,000)	$ 995,000
Beneficial interest in Trusts		20,000
MSRs		7,000
		$ 1,022,000
Computation of gain on sale:		
Net proceeds		$ 995,000
Less allocated cost ($995,000 / $1,022,000 x $1,000,000)		973,581
Recorded gain on sale		$ 21,419
Recorded beneficial interest in Trusts ($20,000 / $1,022,000 x $1,000,000)		$ 19,570
Recorded value of MSRs ($7,000 / $1,022,000 x $1,000,000)		$ 6,849
Recorded liability for recourse obligation		$ 4,000

Variations in the assumptions we use affect the estimated fair values and the reported gains on sales. Gains on sales of mortgage loans totaled $58.1 million and $278.0 million for six months ended October 31, 2006 and 2005, respectively.

Our recourse obligation relates 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.

The substantial majority of loan repurchases or indemnification for losses occurs within nine months from the date the loans are sold. We estimate the fair value of the recourse liability at the time the loan is sold. Provisions for losses are charged to gain on sale of mortgage loans and credited to the recourse liability, while actual losses are charged to the liability. We evaluate, and adjust if necessary, the fair value of the recourse obligation quarterly based on current information and trends in underlying loan performance. The amount of losses we expect to incur related to the repurchase of sold loans 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 recourse obligation will increase or decrease.

During the six months ended October 31, 2006 we experienced higher early payment defaults, resulting in an increase in actual and expected loan repurchase activity. As a result, we recorded total loss provisions of $138.6 million during the six months ended October 31, 2006 compared to $31.4 million in the prior year. Loss provisions recorded in the current year consist of $76.6 million recorded on loans sold during the current year and $62.0 million related to loans sold in prior periods. At October 31, 2006, we assumed that substantially all loans that failed to make timely payments according to contractual early payment default provisions will be repurchased, and that 5% of loans will be repurchased from sales that have not yet reached the contractual date upon which repurchases can be determined. Based on historical experience and review of current early payment default, cure rate and loss severity trends, we assumed 30% of all loans we repurchase will cure with no loss incurred, and of those that do not cure, we assumed an average 17% loss severity. During the three months ended October 31, 2006, we increased our estimated loss severity assumption from 15% to 17% and, as a result, recorded $12.6 million in reserves related to loans sold in prior quarters.

Based on our analysis as of October 31, 2006, we estimated our liability for recourse obligations to be $84.1 million. The sensitivity of the recourse liability to 10% and 20% adverse changes in loss assumptions is $8.4 million and $16.8 million, respectively.

Valuation of MSRs

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

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

Critical assumptions used in our discounted cash flow model include mortgage prepayment speeds, discount rates, costs to service and ancillary income. Variations in our assumptions could materially affect the estimated fair values. Changes to our assumptions are made when current trends and market data indicate that new trends have developed. Certain assumptions, such as

ancillary interest income, may change from quarter to quarter as market conditions and projected interest rates change. Other assumptions, such as expected prepayment speeds, discount rates and costs of servicing may change less frequently as they are less sensitive to near-term market conditions.

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

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

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

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

During the period from October 31, 2005 to the current quarter ended October 31, 2006, assumptions used in valuing MSRs have been updated. The significant changes and their impact, both in dollars and basis points of loans sold during the quarter of initial implementation, are outlined below beginning with the most recent changes.

(dollars in 000s)

Description	Change	Impact	Quarter Implemented
Ancillary fees	Decreased average number of days of interest collected related to prepayments	($3,677) or (5) basis points	July 31, 2006
Discount rate	15% to 18%	($2,555) or (3) basis points	January 31, 2006
Costs to service	Decreased the number of days of interest paid to investors	$12,893 or 11 basis points	October 31, 2005

During the period ended July 31, 2006, we updated our assumption related to the average number of days of interest collected on funds received as a result of prepayments (Ancillary fees on the table above). We decreased the average number of days of interest collected following a review of the servicing portfolio data. During the quarter ended January 31, 2006, we increased the discount

rate assumption (Discount rate on the table above) used to determine the fair value of MSRs from 15% to 18% as a result of an analysis of third party data including rates used by other market participants. During the quarter ended October 31, 2005, we updated our assumption for number of days of interest paid to investors (Costs to service on the table above) on monthly loan prepayments upon the completion of a review of the historical performance of the servicing portfolio. The cumulative net impact of the changes outlined above and other less significant changes made during the period from October 31, 2005 to October 31, 2006 was an increase of approximately 5 basis points for MSRs initially recorded in the current quarter compared to the prior year quarter.

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

MSRs with a book value of $269.7 million are included in our condensed consolidated balance sheet at October 31, 2006. 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	(9%)
Adverse 20% – % impact on fair value	(16%)
Discount rate:	
Adverse 10% – % impact on fair value	(2%)
Adverse 20% – %$impact on fair value	(4%)
Ancillary Fees and Income:	
Adverse 10% – %impact on fair value	(4%)
Adverse 20% – % impact on fair value	(8%)
Costs to service:	
Adverse 10% – % impact on fair value	(4%)
Adverse 20% – % impact on fair value	(7%)

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.

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Origination Margin (dollars in 000s)

	Three months ended October 31, 2006	Three months ended October 31, 2005	Six months ended October 31, 2006	Six months ended October 31, 2005
Total expenses	$ 179,617	$ 186,951	$ 354,217	$ 361,334
Add: Expenses netted against gain on sale revenues	60,786	161,028	135,381	321,048
Less:				
Cost of services	(79,625)	(67,811)	(158,313)	(132,203)
Cost of acquisition	(34,543)	(107,366)	(75,230)	(220,377)
Allocated support departments	(5,828)	(5,472)	(11,123)	(10,242)
Other	(15,392)	(10,409)	(27,774)	(16,779)
	$ 105,015	$ 156,921	$ 217,158	$ 302,781
Divided by origination volume	$ 6,620,475	$ 12,190,884	$ 14,412,532	$ 22,678,917
Total cost of origination	1.59%	1.29%	1.51%	1.34%

Banking Ratios (dollars in 000s)

	Three months ended October 31, 2006	Six months ended October 31, 2006
Efficiency Ratio:		
Total Consumer Financial Services expenses	$ 119,084	$ 235,162
Less: Interest and non-banking expenses	(117,244)	(231,987)
Non-interest banking expenses	$ 1,840	$ 3,175
Total Consumer Financial Services revenues	$ 112,444	$ 220,742
Less: Non-banking revenues and interest expense	(107,820)	(212,278)
Banking revenue – net of interest expense	$ 4,624	$ 8,464
	40%	38%
Net Interest Margin (annualized):		
Net banking interest revenue	$ 4,392	$ 8,121
Net banking interest revenue (annualized)	$ 17,568	$ 16,242
Divided by average assets	$ 656,024	$ 532,131
	2.68%	3.05%
Return on Average Assets (annualized):		
Total Consumer Financial Services pretax loss	$ (6,640)	(14,420)
Less: Non-banking pretax loss	9,060	18,008
Pretax banking income	$ 2,420	$ 3,588
Pretax banking income (annualized)	$ 9,680	$ 7,176
Divided by average assets	$ 656,024	$ 532,131
	1.48%	1.35%

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The sensitivities of certain financial instruments to changes in interest rates as of October 31, 2006 are presented below. The following table represents hypothetical instantaneous and sustained parallel shifts in interest rates and should not be relied on as an indicator of future expected results.

	Carrying Value at October 31, 2006	Basis Point Change -300	-200	-100	+100	+200	+300
Mortgage loans held for investment	$ 683,839	$ 23,326	$ 17,029	$ 10,195	$ (15,805)	$ (32,493)	$ (48,864)
Mortgage loans held for sale	432,064	18,108	11,762	5,882	(5,930)	(11,506)	(15,470)

There have been no other material changes in our market risks from those reported at April 30, 2006 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, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are 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 10 to our condensed consolidated financial statements.

RAL LITIGATION

We reported in our annual report on Form 10-K for the year ended April 30, 2006, certain events and information regarding lawsuits throughout the country 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. We have accrued our best estimate of the probable loss related to the RAL Cases. The following is updated information regarding the pending RAL Cases that are attorney general actions or class actions or putative class actions:

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

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

Deadra D. Cummins, et al. v. H&R Block, Inc., et al., Case No. 03-C-134 in the Circuit Court of Kanawha County, West Virginia, instituted on January 22, 2003. The court approved the settlement of this case on June 8, 2006. An appeal has been filed and is pending.

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, although plaintiffs have indicated that they plan to seek a trial in July 2007.

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 alleges fraudulent business practices, deceptive acts and practices, common law fraud and breach of fiduciary duty with respect to the Express IRA product. The complaint seeks equitable relief, disgorgement of profits, damages and restitution, civil penalties and punitive damages. On December 1, 2006, the Supreme Court of the State of New York issued a ruling that dismissed the New York Attorney General's lawsuit in its entirety, but granted the New York Attorney General leave to amend and refile the lawsuit. 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. All of the civil actions pending in federal court 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 AND SHAREHOLDER DERIVATIVE LITIGATION

On March 17, 2006, the first of three putative class actions alleging violations of certain securities laws are were filed against the Company and certain of its current and former officers and directors (the "Securities Class Action Cases"). In addition, on April 5, 2006, the first of six shareholder derivative actions purportedly brought on behalf of the Company (which is named as a "nominal defendant") were filed against certain of the Company's current and former directors and officers (the "Derivative Cases"). The Securities Class Action Cases alleged, among other things, deceptive, material and misleading financial statements, failure to prepare financial statements in accordance with generally accepted accounting principles and concealment of the potential for lawsuits stemming from the allegedly fraudulent nature of the Company's operations. The actions seek unspecified damages and equitable relief. The Derivative Cases generally involved allegations of breach of fiduciary duty, abuse of control, gross mismanagement, waste and unjust enrichment pertaining to (i) the Company's restatement of financial results due to errors in determining the Company's state effective income tax rate and (ii) certain of the Company's products and other business activities. On September 20, 2006, the United States District Court for the Western District of Missouri ordered all of the Securities Class Action Cases and the Derivative Cases consolidated into a single action styled *In re H&R Block Securities Litigation*. The court will appoint a lead plaintiff who will then file a consolidated complaint. We intend to defend this litigation vigorously, but there are no assurances as to its outcome.

OTHER CLAIMS AND LITIGATION

As reported previously, the NASD brought charges against HRBFA regarding the sale by HRBFA of Enron debentures in 2001. A hearing for this matter commenced in May 2006, was recessed until the fall of 2006 and is scheduled to continue through August 2007. We intend to defend the NASD charges vigorously, although there can be no assurances regarding the outcome and resolution of the matter.

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

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

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

ITEM 1A. RISK FACTORS

Consumer Financial Services. H&R Block, Inc. is a savings and loan holding company, and HRB Bank is a federal savings bank, which is subject to regulation by the OTS and FDIC. Federal and state laws and regulations govern numerous matters including: changes in the ownership or control of banks and bank holding companies; maintenance of adequate capital and the financial condition of a financial institution; permissible types, amounts and terms of extensions of credit and investments; permissible non-banking activities; the level of reserves against deposits; and restrictions on dividend payments. If we do not comply with these regulations, it could result in regulatory actions and negative publicity, which could adversely affect our results of operations.

Other than the item discussed above, there have been no material changes in our risk factors from those reported at April 30, 2006 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 second quarter of fiscal year 2007 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)
August 1 – August 31	6	$ 23.49	—	22,352
September 1 – September 30	6	$ 21.97	—	22,352
October 1 – October 31	(2)	$ 25.10	—	22,352

(1) We purchased 9,911 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 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Our annual meeting of shareholders was held on September 7, 2006, at which four Class II directors were elected to serve three-year terms and the proposals set forth below were submitted to a vote of shareholders. The number of votes cast for, against or withheld, the number of abstentions, and the number of no votes (if applicable) for the election of directors and each proposal were as follows:

Election of Class II Directors

Nominee	Votes FOR	Votes WITHHELD	Votes AGAINST
Jerry D. Choate	256,809,629	11,097,642	—
Henry F. Frigon	250,383,059	17,524,212	—
Roger W. Hale	250,693,550	17,213,721	—
Len J. Lauer	256,711,052	11,196,219	—
Peter Skillern	—	—	267,906,972

Approval of Amendment to 1999 Stock Option Plan for Seasonal Employees

Votes For	187,679,313
Votes Against	47,643,970
Abstain	2,462,535

Approval of Material Terms of Performance Goals for Performance Shares Issued Pursuant to the 2003 Long-Term Executive Compensation Plan

Votes For	251,458,763
Votes Against	13,370,783
Abstain	3,008,727

Ratification of the Appointment of KPMG LLP as our Independent Accountants for the fiscal year ended April 30, 2007

Votes For	229,774,327
Votes Against	35,720,366
Abstain	2,411,470

At the close of business on July 5, 2006, the record date for the annual meeting of shareholders, there were 324,545,858 shares of our Common Stock outstanding and entitled to vote at the meeting. There were 267,906,572 shares represented at the annual meeting of shareholders.

ITEM 6. EXHIBITS

10.1 Omnibus Amendment No. 2 dated as of September 8, 2006 among Option One Mortgage Corporation, Option One Owner Trust 2002-3 and UBS Real Estate Securities Inc.

10.2 Omnibus Amendment Number One to the Option One Owner Trust Facility dated as of September 21, 2006, among Option One Mortgage Corporation, Option One Loan Warehouse Corporation, Option One Owner Trust 2005-7, Wells Fargo Bank, N. A., HSBC Securities (USA) Inc., HSBC Bank USA, N.A. and Bryant Park Funding LLC.

10.3 Fourth Amended and Restated Pricing Side Letter dated as of October 3, 2006 among Option One Owner Trust 2003-4, Option One Loan Warehouse Corporation, Option One Mortgage Corporation and Wells Fargo Bank, N.A., Falcon Asset Securitization Company LLC, JPMorgan Chase Bank, N.A. and Park Avenue Receivables Company LLC.

10.4 Omnibus Amendment Number One to the Option One Owner Trust 2005-8 Warehouse Facility dated as of October 6, 2006 among Option One Loan Warehouse Corporation, Option One Mortgage Corporation, Option One Owner Trust 2005-8, Merrill Lynch Bank USA and Wells Fargo Bank, N.A,

10.5 Omnibus Amendment No. 3 dated as of October 10, 2006 among Option One Mortgage Corporation, Option One Owner Trust 2002-3 and UBS Real Estate Securities Inc.

10.6 Omnibus Amendment Number Two to the Option One Owner Trust Facility Dated as of October 31, 2006, among Option One Mortgage Corporation, Option One Loan Warehouse Corporation, Option One Owner Trust 2005-7, Wells Fargo Bank, N. A., HSBC Securities (USA) Inc., HSBC Bank USA, N.A. and Bryant Park Funding LLC.

31.1 Certification by Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification by Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification by Chief Executive Officer furnished pursuant to 18 U.S.C. 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification by Chief Financial Officer furnished pursuant to 18 U.S.C. 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002.

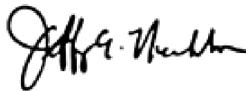
SIGNATURES

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

H&R BLOCK, INC.

Mark A. Ernst
Chairman of the Board, President
and Chief Executive Officer
December 11, 2006

William L. Trubeck
Executive Vice President and
Chief Financial Officer
December 11, 2006



Jeffrey E. Nachbor
Senior Vice President and
Corporate Controller
December 11, 2006

Exhibit 10.1

Execution Version

OMNIBUS AMENDMENT NO. 2

This Omnibus Amendment No. 2 (this "Amendment"), dated as of September 8, 2006, among OPTION ONE OWNER TRUST 2002-3, a Delaware statutory trust, UBS REAL ESTATE SECURITIES INC. (f/k/a UBS Warburg Real Estate Securities Inc.), a Delaware corporation, and OPTION ONE MORTGAGE CORPORATION, a California corporation, amends the following agreements (the "Amended Agreements"):

(A) AMENDED AND RESTATED NOTE PURCHASE AGREEMENT, dated as of March 18, 2005, among Option One Owner Trust 2002-3 (the "Company"), UBS Real Estate Securities Inc. (the "Note Purchaser"), and Option One Mortgage Corporation ("OOMC", or the "Loan Originator") (the "Note Purchase Agreement"); and

(B) PRICING SIDE LETTER, dated as of March 18, 2005, among the Company, the Note Purchaser and the Loan Originator (the "Pricing Side Letter").

This Amendment shall constitute Amendment No. 2 to the Note Purchase Agreement and Amendment No. 2 to the Pricing Side Letter.

A. Amendment to the Note Purchase Agreement

1. The definition of "Commitment Term" in Section 1.1 of the Note Purchase Agreement is hereby deleted in its entirety and replaced with the following:

"'Commitment Term'" shall mean that period of time commencing on September 9, 2006 and continuing until the earlier of (i) October 10, 2006 (or, if applicable, such later date as may be in effect from time to time pursuant to Section 2.10(d)), and (ii) the date upon which the Obligations are declared to be, or become, due and payable in full in accordance with Article X."

B. Amendment to the Pricing Side Letter

1. Section 2 of the Pricing Side Letter is hereby deleted in its entirety and replaced with the following:

"Section 2 — Minimum Usage

The Company and OOMC hereby acknowledge that the Note Purchaser is entering into this facility with the understanding that the Note Purchaser expects to receive at least $546,978.74 (the "Minimum Usage Fee") in spread ("spread" being the cumulative dollar amount of that portion of the Note interest represented by the Margin) during the Commitment Term (i.e., on or prior to October 10, 2006). If, by the end of the Commitment Term, the total spread paid to the Note Purchaser is less than the Minimum

Usage Fee, then the Company and OOMC, jointly and severally, shall pay to the Note Purchaser, on the last day of the Commitment Term, an amount equal to such shortfall."

C. General Provisions

1. Defined Terms. Unless defined in this Amendment, capitalized terms used in this Amendment shall have the meaning given such terms in the Amended Agreements.

2. Expenses. The Loan Originator agrees to pay and reimburse the Note Purchaser for all of the reasonable out-of pocket costs and expenses incurred by the Note Purchaser in connection with the preparation, execution and delivery of this Amendment, including, without limitation, the reasonable fees and disbursements of Dewey Ballantine LLP, counsel to the Note Purchaser.

3. Liability. It is expressly understood and agreed by the parties that (a) this Amendment is executed and delivered by Wilmington Trust Company, not individually or personally, but solely as Owner Trustee, in the exercise of the powers and authority conferred and vested in it, pursuant to the Trust Agreement, (b) each of the representations, undertakings and agreements herein made on the part of the Company 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 Company 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 Company or be liable for the breach or failure of any obligation, representation, warranty or covenant made or undertaken by the Company hereunder or under any other related documents. Nothing expressed or implied in the preceding sentence, however, shall alter the terms and conditions of Section 7.1 of the Trust Agreement.

4. Condition to Effectiveness. As a condition to the effectiveness of this Amendment, the Note Purchaser shall have given its consent.

5. Effect of Amendment. Upon the execution of this Amendment and the attached consent of Note Purchaser, the Amended Agreements shall be modified and amended in accordance herewith and the respective rights, limitations, obligations, duties, liabilities and immunities of each party to the Amended Agreements shall hereafter be determined, exercised and enforced subject in all respects to such modifications and amendments, and all the terms and conditions of this Amendment shall be part of the terms and conditions of the Amended Agreement for any and all purposes as of the date first set forth above. The Amended Agreements, as amended hereby, are hereby ratified and confirmed in all respects.

6. The Amended Agreements in Full Force and Effect as Amended. Except as specifically amended hereby, all the terms and conditions of the Amended Agreements shall remain in full force and effect and, except as expressly provided herein, the effectiveness of this Amendment shall not operate as, or constitute a waiver or modification of, any right, power or remedy of any party to the Amended Agreements. All references to the Amended Agreements in any other document or instrument shall be deemed to mean the Amended Agreements as amended by this Amendment.

7. Counterparts. This Amendment may be executed by the parties in several counterparts, each of which shall be deemed to be an original and all of which shall constitute together but one and the same agreement. This Amendment shall become effective when counterparts hereof executed on behalf of such party shall have been received.

8. Governing Law. This Amendment shall be construed in accordance with and governed by the laws of the State of New York applicable to agreements made and to be performed therein.

[Remainder of page left intentionally blank.]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed by their respective officers, effective as of the day and year first above written.

OPTION ONE OWNER TRUST 2002-3,
as the Company

By: WILMINGTON TRUST COMPANY,
not in its individual capacity but solely as Owner Trustee

By: /s/ Mary Kay Pupillo
Name: Mary Kay Pupillo
Title: Assistant Vice President

UBS REAL ESTATE SECURITIES INC.,
as the Note Purchaser

By: /s/ Robert Carpenter
Name: Robert Carpenter
Title: Executive Director

By: /s/ George A. Mangiaracina
Name: George A. Mangiaracina
Title: Managing Director

OPTION ONE MORTGAGE CORPORATION
as the Loan Originator

By: /s/ Charles R. Fulton
Name: Charles R. Fulton
Title: Vice President

[Signature Page to Omnibus Amendment No. 2]

Exhibit 10.2

OMNIBUS AMENDMENT NUMBER ONE

to the

OPTION ONE OWNER TRUST 2005-7 WAREHOUSE FACILITY

This OMNIBUS AMENDMENT NUMBER ONE (this “Amendment”) is made and is effective as of this 21st day of September, 2006, among Option One Owner Trust 2005-7 as issuer (the “Issuer”), Option One Loan Warehouse Corporation as depositor (the “Depositor”), Option One Mortgage Corporation as loan originator and servicer (“Option One”), Wells Fargo Bank, N.A. as indenture trustee (the “Indenture Trustee”), HSBC Securities (USA) Inc. (the “Noteholder Agent”), HSBC Bank USA, N.A. and Bryant Park Funding LLC (the “Purchasers”) and HSBC Securities (USA) Inc. (the “Administrative Agent” and collectively with the Noteholder Agent and the Purchasers, the “HSBC Entities”) to (i) the Note Purchase Agreement, dated as of September 1, 2005 (as amended, supplemented or otherwise modified from time to time, the “Note Purchase Agreement”), among the Issuer, the Depositor, the Noteholder Agent, the Purchasers and the Administrative Agent and (ii) the Sale and Servicing Agreement, dated as of September 1, 2005 (as amended, supplemented or otherwise modified from time to time, the “Sale and Servicing Agreement” and together with the Note Purchase Agreement, the “Transaction Documents”), among the Issuer, the Depositor, Option One and the Indenture Trustee.

RECITALS

WHEREAS, the parties have previously entered into the Transaction Documents; and

NOW THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and of the mutual covenants herein contained, the parties hereto hereby agree as follows:

SECTION 1. Defined Terms. Capitalized terms used but not defined herein shall have the meanings ascribed to such terms in the Transaction Documents.

SECTION 2. Amendment to Sale and Servicing Agreement.

(a) The definition of “QSPE Affiliate” in Section 1.01 of the Sale and Servicing Agreement is hereby deleted in its entirety and replaced with the following:

“QSPE Affiliate: Any of Option One Owner Trust 2001-1A, Option One Owner Trust 2001-IB, Option One Owner Trust 2002-3, Option One Owner Trust 2003-4, Option One Owner Trust 2003-5, Option One Owner Trust 2005-6, Option One Owner Trust 2005-7, Option One Owner Trust 2005-8, Option One Owner Trust 2005-9 or any other Affiliate which is a “qualified special purpose entity” in accordance with Financial Accounting Standards Board’s Statement No. 140 or 125.”

(b) 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 commencing on September 21, 2006 and ending on the earlier of (i) October 31, 2006 and (ii) the date on which the Revolving Period is terminated pursuant to Section 2.07."

(d) Section 2.07 of the Sale and Servicing Agreement is hereby amended by deleting it in entirety and replacing it with the following:

"Upon the occurrence of (i) an Event of Default or Default or (ii) the Unfunded Transfer Obligation Percentage equals 4% or less or (iii) Option One or any of its Affiliates shall default under, or fail to perform as requested under, or shall otherwise materially breach the terms of any repurchase agreement, loan and security agreement or similar credit facility or agreement entered into by Option One or any of its Affiliates, including without limitation, the Sale and Servicing Agreement, dated as of April 1, 2001, among the Option One Owner Trust 2001-1A, the Depositor, Option One and the Indenture Trustee, the Sale and Servicing Agreement, dated as of April 1, 2001, among the Option One Owner Trust 2001-IB, the Depositor, Option One and the Indenture Trustee, the Sale and Servicing Agreement, dated as of July 2, 2002, among the Option One Owner Trust 2002-3, the Depositor, Option One and the Indenture Trustee, the Sale and Servicing Agreement, dated as of August 8, 2003, among the Option One Owner Trust 2003-4, the Depositor, Option One and the Indenture Trustee, the Sale and Servicing Agreement, dated as of June 1, 2005, among Option One Owner Trust 2005-6, the Depositor, Option One and the Indenture Trustee, the Sale and Servicing Agreement, dated as of September 1, 2005, among the Option One Owner Trust 2005-7, the Depositor, Option One and the Indenture Trustee, the Sale and Servicing Agreement, dated as of October 1, 2005 among Option One Owner Trust 2005-8, the Depositor, Option One and the Indenture Trustee and the Sale and Servicing Agreement, dated as of December 30, 2005 among Option One Owner Trust 2005-9, the Depositor, Option One and the Indenture Trustee and such default, failure or breach shall entitle any counterparty to declare the Indebtedness thereunder to be due and payable prior to the maturity thereof. The Initial Noteholder may, in any such case, in its sole discretion, terminate the Revolving Period."

SECTION 3. Amendment to Note Purchase Agreement.

(a) Section 2.02 of the Note Purchase Agreement is hereby deleted in its entirety and replaced with the following:

"SECTION 2.02 Closing. The closing (the "Closing") of the execution of the Basic Documents and issuance of the Notes shall take place at 10:00 a.m. at the offices of Thacher Proffitt & Wood, Two World Financial Center, New York, New York 10281, or if the conditions to closing set forth in Article IV of this Note Purchase Agreement shall not have been satisfied or

waived by such date, as soon as practicable after such conditions shall have been satisfied or waived, or at such other time, date and place as the parties shall agree upon."

SECTION 4. Representations. To induce the HSBC Entities to execute and deliver this Amendment, each of the Issuer and the Depositor hereby jointly and severally represents to the HSBC Entities that as of the date hereof, after giving effect to this Amendment, (a) all of its respective representations and warranties in the Basic Documents are true and correct, and (b) it is otherwise in full compliance with all of the terms and conditions of the Basic Documents.

SECTION 5. Fees and Expenses. The Issuer and the Depositor jointly and severally covenant to pay as and when billed by the HSBC Entities 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 HSBC Entities, (ii) all reasonable fees and expenses of the Indenture Trustee and Owner Trustee and their counsel and (iii) all reasonable fees and expenses of the Custodian and its counsel.

SECTION 6. Limited Effect. Except as expressly amended and modified by this Amendment, the Transaction Documents shall continue in full force and effect in accordance with its terms. Reference to this Amendment need not be made in any of the Transaction Documents 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 Transaction Documents, any reference in any of such items to the Transaction Documents being sufficient to refer to the Transaction Documents as amended hereby.

SECTION 7. 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 8. 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 9. 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 2005-7 in the exercise of the powers and authority conferred and vested in it, (b) each of the representations, undertakings and agreements herein made on the part of the Issuer is made and intended not as personal representations, undertakings and agreements by Wilmington Trust Company but is made and intended for the purpose for binding only the Issuer, (c) nothing herein contained shall be construed as creating any liability on Wilmington Trust Company, individually or personally, to perform any covenant either expressed or implied contained herein, all such liability, if any, being expressly waived by the parties hereto and by any Person claiming by, through or under the parties hereto and (d) under no circumstances shall Wilmington Trust Company be personally liable for the payment of any indebtedness or expenses of the Issuer or

be liable for the breach or failure of any obligation, representation, warranty or covenant made or undertaken by the Issuer under this Amendment or any other related documents.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed and delivered by their duly authorized officers as of the day and year first above written.

OPTION ONE OWNER TRUST 2005-7

By: Wilmington Trust Company, not in its individual capacity but solely as owner trustee

By: ______________________________
Name:
Title:

OPTION ONE LOAN WAREHOUSE CORPORATION

By: ______________________________
Name:
Title:

OPTION ONE MORTGAGE CORPORATION

By: ______________________________
Name:
Title:

WELLS FARGO BANK, N.A.

By: ______________________________
Name:
Title:

HSBC BANK USA, N.A., as Committed Purchaser

By: ____
Name:
Title:

BRYANT PARK FUNDING LLC, as Conduit Purchaser

By: ____
Name:
Title:

HSBC SECURITIES (USA) INC., as Noteholder Agent

By: ____
Name:
Title:

HSBC SECURITIES (USA) INC., as Administrative Agent

By: ____
Name:
Title:

Exhibit 10.3

Execution Copy

FOURTH AMENDED AND RESTATED
PRICING SIDE LETTER

October 3, 2006

Reference is hereby made to, and this is the "Pricing Side Letter" referred to in, and incorporated by reference into, the Amended and Restated Sale and Servicing Agreement, dated as of August 5, 2005 (as amended, restated, supplemented or otherwise modified from time to time, the "Sale and Servicing Agreement"), by and among Option One Owner Trust 2003-4, as Issuer, Option One Loan Warehouse Corporation, as Depositor, Option One Mortgage Corporation, as Loan Originator and Servicer, and Wells Fargo Bank, N.A., as Indenture Trustee. Any capitalized term used but not defined herein shall have the meaning assigned to such term in the Sale and Servicing Agreement.

As of the date hereof, this Fourth Amended and Restated Pricing Side Letter (this "Pricing Side Letter") hereby amends, restates and supersedes, in its entirety, the Third Amended and Restated Pricing Side Letter dated as of December 27, 2005 by and among the parties hereto.

Section 1. Change of Conduit Purchaser. Effective as of the date first above written, it is expressly understood and agreed by all parties hereto that all right, title, and interest herein and under the Basic Documents, formerly belonging to Preferred Receivables Funding Company LLC (formerly Preferred Receivables Funding Corporation), a Delaware limited liability company ("PREFCO"), as Conduit Purchaser, now succeed to Park Avenue Receivables Company LLC, a Delaware limited liability company ("PARCO"), as Conduit Purchaser.

Section 2. Termination of Conduit Purchaser's Participation. Effective as of the date first above written, Jupiter Securitization Company LLC (formerly Jupiter Securitization Corporation), a Delaware limited liability company ("Jupiter"), ceases to be a party to the Basic Documents as a Conduit Purchaser. Henceforth, PARCO and Falcon Asset Securitization Company LLC (formerly Falcon Asset Securitization Corporation), a Delaware limited liability company ("Falcon"), remain, collectively, as Conduit Purchasers (and each, individually, a Conduit Purchaser). Notwithstanding the foregoing, Jupiter shall continue to enjoy the benefits of Article VII of the Note Purchase Agreement in respect of the period that Jupiter shall have been a Conduit Purchaser under the Basic Documents.

Section 3. Amendment to Definitions. Effective as of the date first above written and subject to the execution of this Pricing Side Letter by the parties hereto, the following terms referenced in Section 1.01 of the Sale and Servicing Agreement or Section 1.01 of the Note Purchase Agreement shall have the meanings set forth below:

Adjusted LIBO Rate: For any Accrual Period, an interest rate per annum equal to the rate per annum obtained by dividing (i) the LIBO Rate in effect for such Accrual Period by (ii) a percentage equal to 100% minus the Eurodollar Reserve Percentage for such Accrual Period.

Alternate Base Rate: A fluctuating interest rate per annum as shall be in effect from time to time, which rate per annum shall at all times be equal to the highest of:

(a) the rate of interest announced publicly by JPMorgan in Chicago, Illinois, from time to time as JPMorgan's prime rate;

(b) 1/2 of one percent above the latest three-week moving average of secondary market morning offering rates in the United States for three-month certificates of deposit of major United States money market banks, such three-week moving average being determined weekly on each Monday (or, if any such day is not a Business Day on the next succeeding Business Day) for the three-week period ending on the previous Friday by JPMorgan on the basis of such rates reported by certificate of deposit dealers to and published by the Federal Reserve Bank of New York or, if such publication shall be suspended or terminated, on the basis of quotations for such rates received by JPMorgan from three New York certificate of deposit dealers of recognized standing selected by JPMorgan, in either case adjusted to the nearest 1/4 of one percent or, if there is no nearest 1/4 of one percent, to the next higher 1/4 of one percent; or

(c) 1/2 of one percent per annum above the Federal Funds Rate.

Assignee Rate: For any Accrual Period, an interest rate per annum equal to the Adjusted LIBO Rate plus 3.0%; provided, however, that (i) in the case of any Accrual Period of less than one month, the "Assignee Rate" for such Accrual Period shall be calculated as the Adjusted LIBO Rate as if such Accrual Period has a duration of one month; and (ii) if it shall become unlawful for JPMorgan to obtain funds in the London interbank market in order to make, fund or maintain the Note Principal Balance or deposits in dollars (in the applicable amounts) are not being offered by JPMorgan in the London interbank market, then the "Assignee Rate" for any Accrual Period shall be calculated using an interest rate per annum equal to the Alternate Base Rate.

Collateral Percentage: With respect to each Loan and any Business Day, a percentage determined as follows:

(a) with respect to all Loans other than Scratch & Dent Loans, 98% or, upon the occurrence of a Performance Trigger, 95%; and

(b) with respect to all Scratch & Dent Loans, 90%.

Collateral Value: With respect to each Loan and each Business Day, an amount equal to the positive difference, if any, between (a) the lesser of (1) the Collateral Percentage of the Market Value of such Loan, and (2)(A) 100% of the Principal Balance of each Loan that is not a Scratch & Dent Loan and (B) 75% of the Principal Balance of each Scratch & Dent Loan, each as of such Business Day, less (b) the aggregate unreimbursed Servicing Advances attributable to such Loan as of the most recent Determination Date; provided, however, that the Collateral Value shall be zero with respect to each Loan (1) that the Loan Originator is required to repurchase pursuant to Section 2.05 or Section 3.06 of the Sale and Servicing Agreement or (2) which is a Loan of the type specified in subparagraphs (i)-(xiv)

hereof and which is in excess of the limits permitted under subparagraphs (i)-(xiv) hereof, or (3) which remains pledged to the Indenture Trustee later than 120 days after its related Transfer Date, or (4) which has been released from the possession of the Custodian to the Servicer or the Loan Originator for a period in excess of 14 days, or (5) that is a Loan which is 90 or more days Delinquent or a Foreclosed Loan, or (6) that is a Loan which has a Loan-to-Value Ratio greater than 100%, or (7) that is not a Wet Funded Loan and for which the Custodian is not in possession of a complete Custodial Loan File, or (8) that is a Wet Funded Loan for which the related Custodial Loan File has not been delivered to the Custodian on or before the later of the 15th Business Day and the 20th calendar day following the related Transfer Date of such Wet Funded Loan, (9) that breaches any representation or warranty set forth in Exhibit E with respect to such Loan, (10) which is not denominated and payable only in United States dollars in the United States, (11) under which the Borrower is not a resident of the United States or is a government or a governmental subdivision or agency, (12) which by its terms is not due and payable on or within 360 months of the original funding date thereof or which has had its payment terms extended, (13) which has had any of its terms, conditions or provisions modified or waived other than in compliance with Loan Originator's Underwriting Guidelines, or (14) which would be deemed part of a "predatory lending" bucket as defined within the state of the United States in which the related Mortgaged Property is located; provided, further, that (A):

(i) the aggregate Collateral Value of Loans which are Second Lien Loans may not exceed 10% of the aggregate Principal Balance of all Loans that are not Scratch & Dent Loans;

(ii) the aggregate Collateral Value of Loans which are 60 to 89 days Delinquent as of the related Determination Date may not exceed 2% of the aggregate Principal Balance of all Loans that are not Scratch & Dent Loans;

(iii) the aggregate Collateral Value of Loans with respect to which the related Borrower's Credit Score is below 525 may not exceed 15% of the aggregate Principal Balance of all Loans;

(iv) the aggregate Collateral Value of Loans which have a Loan-to-Value Ratio (if a First Lien Loan) or CLTV (if a Second Lien Loan) greater than 95% must be less than 5% of the aggregate Principal Balance of all Loans;

(v) the aggregate Collateral Value of Loans which have a Loan-to-Value Ratio (if a First Lien Loan) or CLTV (if a Second Lien Loan) greater than 90% must be less than 10% of the aggregate Principal Balance of all Loans;

(vi) the aggregate Collateral Value of Loans which have a Loan-to-Value Ratio (if a First Lien Loan) or CLTV (if a Second Lien Loan) greater than 85% must be less than 30% of the aggregate Principal Balance of all Loans;

(vii) the aggregate Collateral Value of Loans which have a Loan-to-Value Ratio (if a First Lien Loan) or CLTV (if a Second Lien Loan) greater than 80% must be less than 35% of the aggregate Principal Balance of all Loans;

(viii) the aggregate Collateral Value of Loans that are Scratch & Dent Loans may not exceed $50,000,000; provided that the foregoing limit shall be reduced by the aggregate principal balance of Scratch & Dent Loans subject to any other secured loan, repurchase or credit facility entered into by the Loan Originator and the Note Agent or any Affiliate thereof;

(ix) the aggregate Collateral Value of "prime" or "A-quality" Loans originated by H&R Block Mortgage Corp. may not exceed $50,000,000; provided that the foregoing limit shall be reduced by the aggregate principal balance of "prime" or "A-quality" Loans subject to any other secured loan, repurchase or credit facility entered into by the Loan Originator and the Note Agent or any Affiliate thereof;

(x) the aggregate Collateral Value of Loans that are Wet Funded Loans may not exceed the greater of (A) $100,000,000.00 and (B) 35% of the aggregate Principal Balance of all Loans; provided, however, that the foregoing amount in clause (B) shall not exceed $500,000,000.00; provided, further, that each of the foregoing limits shall be reduced by the aggregate principal balance of Wet Funded Loans subject to any other note purchase, secured loan, repurchase or credit facility entered into by the Loan Originator and the Note Agent or any Affiliate thereof;

(xi) the aggregate Collateral Value of Loans originated by the Loan Originator more than 90 days prior to such Loans' related Transfer Date may not exceed the lesser of $50,000,000.00 or 15% of the aggregate Principal Balance of all Loans, or such greater amount as the Market Value Agent may determine from time to time, in its sole discretion; provided, further, that each of the foregoing limits shall be reduced by the aggregate principal balance of Loans originated by the Loan Originator more than 90 days prior to such Loans' related Transfer Date and subject to any other secured loan, repurchase or credit facility entered into by the Loan Originator and the Note Agent or any Affiliate thereof; and

(xii) the aggregate Collateral Value of Loans with Lost Note Affidavits may not exceed the lesser of $5,000,000.00 or 5% of the aggregate Principal Balance of all Loans; provided, further, that each of the foregoing limits shall be reduced by the aggregate principal balance of Loans with Lost Note Affidavits subject to any other secured loan, repurchase or credit facility entered into by the Loan Originator and the Note Agent or any Affiliate thereof;

(xiii) the aggregate Collateral Value of Loans that are Interest-Only Loans (as defined in Exhibit E to the Sale and Servicing Agreement) may not exceed 30% of the aggregate Principal Balance of all Loans; provided, however, that the foregoing limit shall be reduced by the aggregate principal balance of Interest-Only Loans subject to any other note purchase, secured loan, repurchase or credit facility entered into by the Loan Originator and the Note Agent or any Affiliate thereof; and

(xiv) each Loan shall be counted in each applicable category in (A) above and may be counted in 2 or more categories in (A) above at the same time; provided that once the Collateral Value of any Loan equals zero, it shall not be counted in any category listed in (A) above.

Commitment Termination Date: October 2, 2007, as such date may be extended in accordance with Section 2.05 of the Note Purchase Agreement.

CP Rate: For each Conduit Purchaser for any Accrual Period, the per annum rate equivalent to the weighted average of the per annum rates paid or payable by such Conduit Purchaser from time to time as interest on or otherwise (by means of interest rate hedges or otherwise) in respect of the Commercial Paper Notes issued by such Conduit Purchaser that are allocated, in whole or in part, by the Note Agent (on behalf of such Conduit Purchaser) to fund or maintain its interest in the Note during such Accrual Period, as determined by the Note Agent (on behalf of such Conduit Purchaser) and reported to the Servicer and the Indenture Trustee, which rates shall reflect and give effect to the commissions of placement agents and dealers in respect of such promissory notes, to the extent such commissions are allocated, in whole or in part, to such promissory notes by the Note Agent (on behalf of such Conduit Purchaser); provided, however, that if any component of such rate is a discount rate, in calculating the "CP Rate" for such Accrual Period, the Note Agent shall for such component use the rate resulting from converting such discount rate to an interest bearing equivalent rate per annum.

Eurodollar Reserve Percentage: For any Accrual Period, the reserve percentage applicable to JPMorgan during such Accrual Period under regulations issued from time to time by the Board of Governors of the Federal Reserve System (or any successor) (or if more than one such percentage shall be so applicable, the daily average of such percentages for those days in such Accrual Period during which any such percentage shall be so applicable) under regulations issued from time to time by the Board of Governors of the Federal Reserve System (or, any successor) for determining the maximum reserve requirement (including, without limitation, any emergency, supplemental or other marginal reserve requirement) for JPMorgan in respect of liabilities or assets consisting of or including Eurocurrency Liabilities having a term equal to such Accrual Period.

Federal Funds Rate: For any day, a fluctuating interest rate per annum equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published for such day (or, if such day is not a Business Day, for the next preceding Business Day) by the Federal Reserve Bank of New York, or, if such rate is not so published for any day which is a Business Day, the average of the quotations for such day for such transactions received by JPMorgan from three Federal funds brokers of recognized standing selected by it.

LIBO Rate: With respect to any Accrual Period, the rate per annum equal to the applicable British Bankers' Association Interest Settlement Rate for deposits in

U.S. dollars appearing on Reuters Screen FRBD as of 11:00 a.m. (London time) two Business Days prior to the first day of the relevant Accrual Period, and having a maturity equal to such Accrual Period, provided that, (1) if Reuters Screen FRBD is not available to the Note Agent for any reason, the applicable LIBO Rate for the relevant Accrual Period shall instead be the applicable British Bankers' Association Interest Settlement Rate for deposits in U.S. dollars as reported by any other generally recognized financial information service as of 11:00 a.m. (London time) two Business Days prior to the first day of such Accrual Period, and having a maturity equal to such Accrual Period, and (2) if no such British Bankers' Association Interest Settlement Rate is available to the Note Agent, the applicable LIBO Rate for the relevant Accrual Period shall instead be the rate determined by the Note Agent to be the rate at which it offers to place deposits in U.S. dollars with first-class banks in the London interbank market at approximately 11:00 a.m. (London time) two Business Days prior to the first day of such Accrual Period, in the approximate amount to be funded at the LIBO Rate and having a maturity equal to such Accrual Period.

LIBOR Determination Date: The date as of which the LIBO Rate is determined, pursuant to the definition of that term set forth in this Pricing Side Letter.

Maximum Note Principal Balance: (i) $1,500,000,000 until March 31, 2006, and (ii) from and after March 31, 2006, $1,000,000,000, in each case as such amount may be increased or decreased in accordance with the terms of the Note Purchase Agreement.

Nonutilization Fee: A fee payable by the Issuer to the Initial Noteholder on each Payment Date in an amount equal to (a) 0.175% times (b) the average daily amount for the immediately preceding month of (1) the product of 1.02% and the Maximum Note Principal Balance in effect during such month less (2) the Note Principal Balance divided by (c) 360 and multiplied by (d) the actual number of calendar days that have elapsed since the immediately preceding Payment Date (or, with respect to the first Payment Date, the Closing Date).

Note Interest Rate: For any Accrual Period:

(i) to the extent that a Conduit Purchaser funds or maintains its interest in the Note by issuing its Commercial Paper Notes, the CP Rate,

(ii) if and to the extent that a Conduit Purchaser elects in its sole discretion not to fund or maintain, or is not able to fund or maintain, its interest in the Note for such Accrual Period by the issuance of its Commercial Paper Notes, or if and to the extent that a Committed Purchaser funds or maintains an interest in the Note, a rate equal to the Assignee Rate for such Accrual Period.

(iii) at any time following the occurrence of an Event of Default, the "Note Interest Rate" for each Accrual Period shall be the sum of the Alternate Base Rate plus 3.0% per annum.

Overcollateralization Shortfall: With respect to any Business Day, an amount equal to the positive difference, if any, between (a) the Note Principal Balance on such Business Day and (b) the aggregate Collateral Value of all Loans in the Loan Pool as of such Business Day; provided, however, that (i) if such Business Day is not a Payment Date, an Overcollateralization Shortfall shall not occur if the Note Principal Balance exceeds the Collateral Value on such Business Day by an amount less than or equal to 1.00% of such Note Principal Balance solely as a result of the aggregate Collateral Value of Loans in any category described in clauses (i) through (xii) of the second proviso set forth in the definition of "Collateral Value" exceeding the applicable concentration limit set forth therein, and (ii) on (A) the termination of the Revolving Period, (B) the occurrence of a Rapid Amortization Trigger, (C) the Payment Date on which the Trust is to be terminated pursuant to Section 10.02 of the Sale and Servicing Agreement, or (D) the Final Put Date, the Overcollateralization Shortfall shall be equal to the Note Principal Balance. Notwithstanding anything to the contrary herein, in no event shall the Overcollateralization Shortfall, with respect to any Business Day, exceed the Note Principal Balance as of such date. If as of such Business Day, no Rapid Amortization Trigger or Default under this Agreement or the Indenture shall be in effect, the Overcollateralization Shortfall shall be reduced (but in no event to an amount below zero) by all or any portion of the aggregate Hedge Value as of such Payment Date as the Majority Noteholders may, in their sole discretion, designate in writing.

Revolving Period: With respect to the Notes, the period commencing on the Closing Date and ending on the earlier of (i) October 2, 2007, and (ii) the date on which the Revolving Period is terminated pursuant to Section 2.07 of the Sale and Servicing Agreement. The Revolving Period may be extended annually, in the sole discretion of the Note Agent, upon the request of the Depositor.

Section 4. Amendment to the Sale and Servicing Agreement. Effective as of the date first above written and subject to the execution of this Pricing Side Letter by the parties hereto, clause (xx) of Exhibit E to the Sale and Servicing Agreement is hereby amended to insert at the end thereof:

Notwithstanding the foregoing, a Loan that satisfies all of the other representations and warranties set forth in Exhibit E may satisfy the representation and warranty set forth in this clause, subject to the limitations set forth in the definition of "Collateral Value", if the principal payments on such Loan commence more than two months but no more than seven years after the proceeds of such Loan were disbursed (any such loan being an "Interest-Only Loan").

Section 4. Amendment to the Note Purchase Agreement. Effective as of the date first above written and subject to the execution of this Pricing Side Letter by the parties hereto, Schedule II to the Note Purchase Agreement is hereby amended to delete the notice address for PREFCO now appearing therein and to substitute the following notice address for PARCO therefor:

If to Park Avenue Receivables Company LLC:	c/o JPMorgan Chase Bank, N.A., as Note Agent Asset Backed Finance Suite IL1-0079, 1-19 1 Bank One Plaza Chicago, Illinois 60670-0079 Facsimile No.: (312) 732-1844 Telephone No.: (312) 732-2960

With a copy to the Note Agent;

Section 5. Counterparts; Amendment.

This Pricing Side Letter may be executed simultaneously in any number of counterparts. Each counterpart shall be deemed to be an original, and all such counterparts shall constitute one and the same instrument. No amendment or waiver of any provision of this Pricing Side Letter, and no consent to any departure by any of the parties hereto from its expressed terms, shall in any event be effective unless the same shall be in writing and signed by the parties hereto.

Section 6. Limitation on Liability.

It is expressly understood and agreed by the parties hereto that (a) this Pricing Side Letter is executed and delivered by Wilmington Trust Company, not individually or personally, but solely as Owner Trustee of Option One Owner Trust 2003-4 in the exercise of the powers and authority conferred and vested in it, (b) each of the representations, undertakings and agreements herein made on the part of the Issuer is made and intended not as personal representations, undertakings and agreements by Wilmington Trust Company but is made and intended for the purpose of binding only the Issuer, (c) nothing herein contained shall be construed as creating any liability on Wilmington Trust Company, individually or personally, to perform any covenant either expressed or implied contained herein, all such liability, if any, being expressly waived by the parties hereto and by any Person claiming by, through or under the parties hereto and (d) under no circumstances shall Wilmington Trust Company be personally liable for the payment of any indebtedness or expenses of the Issuer or be liable for the breach or failure of any obligation, representation, warranty or covenant made or undertaken by the Issuer under this Pricing Side Letter or any other related documents.

[SIGNATURE PAGES FOLLOW]

IN WITNESS WHEREOF, the parties and the Conduit Purchasers identified below have caused their names to be signed hereto by their respective officers thereunto duly authorized on the date first above written.

Option One Owner Trust 2003-4

By: Wilmington Trust Company, not in its individual capacity but solely in its capacity as Owner Trustee

By: /s/ Mary Kay Pupillo
Name: Mary Kay Pupillo
Title: Assistant Vice President

Wells Fargo Bank, N.A.

By: /s/ Brett Handelman
Name: Brett Handelman
Title: VP

Option One Loan Warehouse Corporation

By: /s/ Philip Laren
Name: Philip Laren
Title: Vice President

Option One Mortgage Corporation

By: /s/ Philip Laren
Name: Philip Laren
Title: Senior Vice President

Falcon Asset Securitization Company LLC (formerly known as Falcon Asset Securitization Corporation), as a Conduit Purchaser

By: JPMorgan Chase Bank, N.A., its attorney-in-fact

By: /s/ John Svolos
Name: John Svolos
Title: Vice President

JPMorgan Chase Bank, N.A., as Note Agent and Committed Purchaser

By: /s/ John Svolos
Name: John Svolos
Title: Vice President

Park Avenue Receivables Company LLC, as a Conduit Purchaser

By: JPMorgan Chase Bank, N.A., its attorney-in-fact

By: /s/ John Svolos
Name: John Svolos
Title: Vice President

ACKNOWLEDGED & AGREED

Jupiter Securitization Company LLC
(formerly known as Jupiter Securitization Corporation),
as a Conduit Purchaser

By: JPMorgan Chase Bank, N.A., its
attorney-in-fact

By: /s/ John Svolos
Name: John Svolos
Title: Vice President

Signature Page to
Fourth Amended and Restated Pricing Side Letter

Exhibit 10.4

OMNIBUS AMENDMENT NUMBER ONE

to the

OPTION ONE OWNER TRUST 2005-8 WAREHOUSE FACILITY

This OMNIBUS AMENDMENT NUMBER ONE (this "Amendment") is made and is effective as of this 6th day of October, 2006, among Option One Owner Trust 2005-8, as issuer (the "Issuer"), Option One Loan Warehouse Corporation, as depositor (the "Depositor"), Option One Mortgage Corporation as loan originator and servicer ("Option One"), Wells Fargo Bank, N.A. as indenture trustee (the "Indenture Trustee"), Merrill Lynch Bank USA, as noteholder agent and purchaser ("Merrill Lynch") to (i) the Note Purchase Agreement, dated as of October 1, 2005 (as amended, supplemented or otherwise modified from time to time, the "Note Purchase Agreement"), among the Issuer, the Depositor and Merrill Lynch and (ii) the Sale and Servicing Agreement, dated as of October 1, 2005 (as amended, supplemented or otherwise modified from time to time, the "Sale and Servicing Agreement" and together with the Note Purchase Agreement, the "Transaction Documents"), among the Issuer, the Depositor, Option One and the Indenture Trustee.

RECITALS

WHEREAS, the parties have previously entered into the Transaction Documents; and

NOW THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and of the mutual covenants herein contained, the parties hereto hereby agree as follows:

SECTION 1. Defined Terms. Capitalized terms used but not defined herein shall have the meanings ascribed to such terms in the Transaction Documents.

SECTION 2. Amendment to Sale and Servicing Agreement.

(a) The definition of "QSPE Affiliate" in Section 1.01 of the Sale and Servicing Agreement is hereby deleted in its entirety and replaced with the following:

"QSPE Affiliate: Any of Option One Owner Trust 2001-1A, Option One Owner Trust 2001-1B, Option One Owner Trust 2002-3, Option One Owner Trust 2003-4, Option One Owner Trust 2003-5, Option One Owner Trust 2005-6, Option One Owner Trust 2005-8, Option One Owner Trust 2005-8, Option One Owner Trust 2005-9 or any other Affiliate which is a "qualified special purpose entity" in accordance with Financial Accounting Standards Board's Statement No. 140 or 125."

(b) 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 commencing on October 6, 2006 and ending on the earlier of (i) 364 days after such date, and (ii) the date on which the Revolving Period is terminated pursuant to Section 2.07.”

(d) Section 2.07 of the Sale and Servicing Agreement is hereby amended by deleting it in entirety and replacing it with the following:

“Upon the occurrence of (i) an Event of Default or Default or (ii) the Unfunded Transfer Obligation Percentage equals 4% or less or (iii) Option One or any of its Affiliates shall default under, or fail to perform as requested under, or shall otherwise materially breach the terms of any repurchase agreement, loan and security agreement or similar credit facility or agreement entered into by Option One or any of its Affiliates, including without limitation, the Sale and Servicing Agreement, dated as of April 1, 2001, among the Option One Owner Trust 2001-1 A, the Depositor, Option One and the Indenture Trustee, the Sale and Servicing Agreement, dated as of April 1, 2001, among the Option One Owner Trust 2001-IB, the Depositor, Option One and the Indenture Trustee, the Sale and Servicing Agreement, dated as of July 2, 2002, among the Option One Owner Trust 2002-3, the Depositor, Option One and the Indenture Trustee, the Sale and Servicing Agreement, dated as of August 8, 2003, among the Option One Owner Trust 2003-4, the Depositor, Option One and the Indenture Trustee, the Sale and Servicing Agreement, dated as of June 1, 2005, among Option One Owner Trust 2005-6, the Depositor, Option One and the Indenture Trustee, the Sale and Servicing Agreement, dated as of September 1, 2005, among the Option One Owner Trust 2005-7, the Depositor, Option One and the Indenture Trustee, the Sale and Servicing Agreement, dated as of October 1, 2005 among Option One Owner Trust 2005-8, the Depositor, Option One and the Indenture Trustee and the Sale and Servicing Agreement, dated as of December 30, 2005 among Option One Owner Trust 2005-9, the Depositor, Option One and the Indenture Trustee and such default, failure or breach shall entitle any counterparty to declare the Indebtedness thereunder to be due and payable prior to the maturity thereof. The Initial Noteholder may, in any such case, in its sole discretion, terminate the Revolving Period.”

SECTION 3. <u>Amendment to Note Purchase Agreement.</u>

(a) Section 2.02 of the Note Purchase Agreement is hereby deleted in its entirety and replaced with the following:

“SECTION 2.02 <u>Closing.</u> The closing (the “<u>Closing</u>”) of the execution of the Basic Documents and issuance of the Notes shall take place at 10:00 a.m. at the offices of Thacher Proffitt & Wood, Two World Financial Center, New York, New York 10281, or if the conditions to closing set forth in Article IV of this Note Purchase Agreement shall not have been satisfied or waived by such date, as soon as practicable after such conditions shall have been satisfied or waived, or at such other time, date and place as the parties shall agree upon.”

SECTION 4. Representations. To induce Merrill Lynch to execute and deliver this Amendment, each of the Issuer and the Depositor hereby jointly and severally represents to Merrill Lynch that as of the date hereof, after giving effect to this Amendment, (a) all of its respective representations and warranties in the Basic Documents are true and correct, and (b) it is otherwise in full compliance with all of the terms and conditions of the Basic Documents.

SECTION 5. Fees and Expenses. The Issuer and the Depositor jointly and severally covenant to pay as and when billed by Merrill Lynch 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 Merrill Lynch, (ii) all reasonable fees and expenses of the Indenture Trustee and Owner Trustee and their counsel and (iii) all reasonable fees and expenses of the Custodian and its counsel.

SECTION 6. Limited Effect. Except as expressly amended and modified by this Amendment, the Transaction Documents shall continue in full force and effect in accordance with its terms. Reference to this Amendment need not be made in any of the Transaction Documents 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 Transaction Documents, any reference in any of such items to the Transaction Documents being sufficient to refer to the Transaction Documents as amended hereby.

SECTION 7. 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 8. 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 9. 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 2005-8 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.

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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 2005-8

By: Wilmington Trust Company, not in its individual capacity but solely as owner trustee

By: /s/ Mary Kay Pupillo
Name: Mary Kay Pupillo
Title: Assistant Vice President

OPTION ONE LOAN WAREHOUSE CORPORATION

By: /s/ Philip Laren
Name: Philip Laren
Title: Vice President

OPTION ONE MORTGAGE CORPORATION

By: /s/ Philip Laren
Name: Philip Laren
Title: Senior Vice President

WELLS FARGO BANK, N.A.

By: /s/ Barry Schwartz
Name: Barry Schwartz
Title: VP

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 2005-8

By: Wilmington Trust Company, not in its individual capacity but solely as owner
trustee

By: ______________________________
Name:
Title:

OPTION ONE LOAN WAREHOUSE CORPORATION

By: /s/Philip Laren
Name: **Philip Laren**
Title: **Vice President**

OPTION ONE MORTGAGE CORPORATION

By: /s/Philip Laren
Name: **Philip Laren**
Title: **Senior Vice President**

WELLS FARGO BANK, N.A.

By: ______________________________
Name:
Title:

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 2005-8

By: Wilmington Trust Company, not in its individual capacity but solely as owner trustee

By: ____________________
Name:
Title:

OPTION ONE LOAN WAREHOUSE CORPORATION

By: ____________________
Name:
Title:

OPTION ONE MORTGAGE CORPORATION

By: ____________________
Name:
Title:

WELLS FARGO BANK, N.A.

By: /s/Barry Schwartz
Name: Barry Schwartz
Title: V P

MERRILL LYNCH BANK USA, as
Purchaser

By: /s/ James B. Cason
Name: **James B. Cason**
Title: **Vice President**

MERRILL LYNCH BANK USA, as
Noteholder Agent

By: /s/ Joseph Magnus
Name: **Joseph Magnus**
Title: **Director**

OMNIBUS AMENDMENT NO. 3

This Omnibus Amendment No. 3 (this "Amendment"), dated as of October 10, 2006, among OPTION ONE OWNER TRUST 2002-3, a Delaware statutory trust, UBS REAL ESTATE SECURITIES INC. (f/k/a UBS Warburg Real Estate Securities Inc.), a Delaware corporation, and OPTION ONE MORTGAGE CORPORATION, a California corporation, amends the following agreements (the "Amended Agreements"):

(A) AMENDED AND RESTATED NOTE PURCHASE AGREEMENT, dated as of March 18, 2005, among Option One Owner Trust 2002-3 (the "Company"), UBS Real Estate Securities Inc. (the "Note Purchaser"), and Option One Mortgage Corporation ("OOMC", or the "Loan Originator") (the "Note Purchase Agreement"); and

(B) PRICING SIDE LETTER, dated as of March 18, 2005, among the Company, the Note Purchaser and the Loan Originator (the "Pricing Side Letter").

This Amendment shall constitute Amendment No. 3 to the Note Purchase Agreement and Amendment No. 3 to the Pricing Side Letter.

A. Amendment to the Note Purchase Agreement

1. The definition of "Commitment Term" in Section 1.1 of the Note Purchase Agreement is hereby deleted in its entirety and replaced with the following:

> '"Commitment Term'" shall mean that period of time commencing on October 11, 2006 and continuing until the earlier of (i) November 10, 2006 (or, if applicable, such later date as may be in effect from time to time pursuant to Section 2.10(d)), and (ii) the date upon which the Obligations are declared to be, or become, due and payable in full in accordance with Article X."

B. Amendment to the Pricing Side Letter

1. Section 2 of the Pricing Side Letter is hereby deleted in its entirety and replaced with the following:

"Section 2 — Minimum Usage

> The Company and OOMC hereby acknowledge that the Note Purchaser is entering into this facility with the understanding that the Note Purchaser expects to receive at least $546,978.74 (the "Minimum Usage Fee") in spread ("spread" being the cumulative dollar amount of that portion of the Note interest represented by the Margin) during the Commitment Term (i.e., on or prior to October 10, 2006). If, by the end of the Commitment Term, the total spread paid to the Note Purchaser is less than the Minimum

Usage Fee, then the Company and OOMC, jointly and severally, shall pay to the Note Purchaser, on the last day of the Commitment Term, an amount equal to such shortfall."

C. General Provisions

1. Defined Terms. Unless defined in this Amendment, capitalized terms used in this Amendment shall have the meaning given such terms in the Amended Agreements.

2. Expenses. The Loan Originator agrees to pay and reimburse the Note Purchaser for all of the reasonable out-of pocket costs and expenses incurred by the Note Purchaser in connection with the preparation, execution and delivery of this Amendment, including, without limitation, the reasonable fees and disbursements of Dewey Ballantine LLP, counsel to the Note Purchaser.

3. Liability. It is expressly understood and agreed by the parties that (a) this Amendment is executed and delivered by Wilmington Trust Company, not individually or personally, but solely as Owner Trustee, in the exercise of the powers and authority conferred and vested in it, pursuant to the Trust Agreement, (b) each of the representations, undertakings and agreements herein made on the part of the Company 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 Company 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 Company or be liable for the breach or failure of any obligation, representation, warranty or covenant made or undertaken by the Company hereunder or under any other related documents. Nothing expressed or implied in the preceding sentence, however, shall alter the terms and conditions of Section 7.1 of the Trust Agreement.

4. Condition to Effectiveness. As a condition to the effectiveness of this Amendment, the Note Purchaser shall have given its consent.

5. Effect of Amendment. Upon the execution of this Amendment and the attached consent of Note Purchaser, the Amended Agreements shall be modified and amended in accordance herewith and the respective rights, limitations, obligations, duties, liabilities and immunities of each party to the Amended Agreements shall hereafter be determined, exercised and enforced subject in all respects to such modifications and amendments, and all the terms and conditions of this Amendment shall be part of the terms and conditions of the Amended Agreement for any and all purposes as of the date first set forth above. The Amended Agreements, as amended hereby, are hereby ratified and confirmed in all respects.

6. The Amended Agreements in Full Force and Effect as Amended. Except as specifically amended hereby, all the terms and conditions of the Amended Agreements shall remain in full force and effect and, except as expressly provided herein, the effectiveness of this Amendment shall not operate as, or constitute a waiver or modification of, any right, power or remedy of any party to the Amended Agreements. All references to the Amended Agreements in any other document or instrument shall be deemed to mean the Amended Agreements as amended by this Amendment.

7. Counterparts. This Amendment may be executed by the parties in several counterparts, each of which shall be deemed to be an original and all of which shall constitute together but one and the same agreement. This Amendment shall become effective when counterparts hereof executed on behalf of such party shall have been received.

8. Governing Law. This Amendment shall be construed in accordance with and governed by the laws of the State of New York applicable to agreements made and to be performed therein.

[Remainder of page left intentionally blank.]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed by their respective officers, effective as of the day and year first above written

OPTION ONE OWNER TRUST 2002-3,
as the Company

By: WILMINGTON TRUST COMPANY,
not in its individual capacity but solely as Owner Trustee

By: /s/ Mary Kay Pupillo
Name: Mary Kay Pupillo
Title: Assistant Vice President

UBS REAL ESTATE SECURITIES INC.,
as the Note Purchaser

By: /s/ Robert Carpenter
Name: Robert Carpenter
Title: Executive Director

By: /s/ George A. Mangiaracina
Name: George A. Mangiaracina
Title: Managing Director

OPTION ONE MORTGAGE CORPORATION
as the Loan Originator

By: /s/ Philip Laren
Name: Philip Laren
Title: Senior Vice President

[Signature Page to Omnibus Amendment No. 3]

Exhibit 10.6

OMNIBUS AMENDMENT NUMBER TWO

to the

OPTION ONE OWNER TRUST 2005-7 WAREHOUSE FACILITY

This OMNIBUS AMENDMENT NUMBER TWO (this "Amendment") is made and is effective as of this 31st day of October, 2006, among Option One Owner Trust 2005-7 as issuer (the "Issuer"), Option One Loan Warehouse Corporation as depositor (the "Depositor"), Option One Mortgage Corporation as loan originator and servicer ("Option One"), Wells Fargo Bank, N.A. as indenture trustee (the "Indenture Trustee"), HSBC Securities (USA) Inc. (the "Noteholder Agent"), HSBC Bank USA, N.A. and Bryant Park Funding LLC (the "Purchasers") and HSBC Securities (USA) Inc. (the "Administrative Agent" and collectively with the Noteholder Agent and the Purchasers, the "HSBC Entities") to (i) the Note Purchase Agreement, dated as of September 1, 2005 (as amended, supplemented or otherwise modified from time to time, the "Note Purchase Agreement"), among the Issuer, the Depositor, the Noteholder Agent, the Purchasers and the Administrative Agent, (ii) the Pricing Letter, dated as of September 1, 2005 (as amended, supplemented or otherwise modified from time to time, the "Pricing Letter"), among the Issuer, the Depositor, Option One, and the Indenture Trustee and (iii) the Sale and Servicing Agreement, dated as of September 1, 2005 (as amended, supplemented or otherwise modified from time to time, the "Sale and Servicing Agreement" and together with the Note Purchase Agreement and the Pricing Letter, the "Transaction Documents"), among the Issuer, the Depositor, Option One and the Indenture Trustee.

RECITALS

WHEREAS, the parties have previously entered into the Transaction Documents; and

NOW THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and of the mutual covenants herein contained, the parties hereto hereby agree as follows:

SECTION 1. Defined Terms. Capitalized terms used but not defined herein shall have the meanings ascribed to such terms in the Transaction Documents.

SECTION 2. Amendment to Sale and Servicing Agreement.

(a) 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 commencing on October 31, 2006 and ending on the earlier of (i) March 31, 2007 and (ii) the date on which the Revolving Period is terminated pursuant to Section 2.07."

(b) The definition of "Accrual Period" in Section 1.01 of the Sale and Servicing Agreement is hereby deleted in its entirety and replaced with the following:

"Accrual Period: With respect to the Notes, the preceding calendar month."

SECTION 3. Amendment to Pricing Letter.

(a) The definition of "Make-Whole Premium" in Section 1 of the Pricing Letter is hereby deleted in its entirety and replaced with the following:

"Make-Whole Premium: A fee payable by the Issuer to the Purchaser, (a) on the Payment Date occurring five months following the date hereof (or, if sooner, the final Payment Date), in an amount equal to (i) $1,250,000 minus (ii) the sum of any Commitment Fee actually paid to the Note Purchaser plus all Interest Payment Amounts received by the Note Purchaser since the date hereof."

(b) Effective as of November 1, 2006, the definition of "Note Interest Rate" in Section 1 of the Pricing Letter is hereby deleted in its entirety and replaced with the following:

"Note Interest Rate: For any Accrual Period, (a) in the case of any portion of the Additional Note Principal Balance during such Accrual Period that is purchased by the Conduit Purchaser, the CP Cost of Funds Rate plus the CP Margin and, if applicable, the Additional CP Margin for such Accrual Period; and (b) in the case of any portion of the Additional Note Principal Balance during such Accrual Period that is purchased by the Committed Purchaser, a per annum interest rate equal to One-Month LIBOR for the related LIBOR Determination Date plus the LIBOR Margin and, if applicable, the Additional LIBOR Margin for such Accrual Period."

(c) The definition of "CP Cost of Funds Rate" is hereby added to Section 1 of the Pricing Letter as follows:

"CP Cost of Funds Rate": The per annum rate equivalent to the weighted average of the rates payable by the Conduit Purchaser in respect of its commercial paper outstanding on such day that is allocated, in whole or in part, to fund or maintain its net investment in the Additional Note Principal Balances, converted (as necessary) to an annual yield equivalent rate calculated on the basis of a 360-day year, which rates shall include issuing and paying agent fees and any placement agent or commercial paper fees and commissions.

(d) The definition of "CP Margin" is hereby added to Section 1 of the Pricing Letter as follows:

"CP Margin: With respect to each day, the percentage corresponding to the Loans pledged to the Indenture Trustee on of such day, as set forth in the following table:

First Lien Mortgage Loans	0.50%
Second Lien Mortgage Loans	0.50%
Wet Funded Loans	0.70%
30 days Delinquent Loan	1.00%"

(e) The definition of "Additional CP Margin" is hereby added to Section 1 of the Pricing Letter as follows:

"Additional CP Margin: With respect to each day, the percentage corresponding to the Unfunded Transfer Obligation Percentage as of such day, as set forth in the following table:

Unfunded Transfer Obligation Percentage:	Additional CP Margin:
>=7.00%	0.00%
>=6.00%, but <7.00%	0.375%
>=5.00%, but <6.00%	0.75%
>=4.00%, but <5.00%	1.00%
<4.00%	1.25%

provided that the Additional CP Margin shall be equal to 3.00% upon the occurrence of an Event of Default, any Termination Event or after the conditions for a Cleanup Call have been satisfied."

SECTION 4. Representations. To induce the HSBC Entities to execute and deliver this Amendment, each of the Issuer and the Depositor hereby jointly and severally represents to the HSBC Entities that as of the date hereof, after giving effect to this Amendment, (a) all of its respective representations and warranties in the Basic Documents are true and correct, and (b) it is otherwise in full compliance with all of the terms and conditions of the Basic Documents.

SECTION 5. Fees and Expenses. The Issuer and the Depositor jointly and severally covenant to pay as and when billed by the HSBC Entities 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 HSBC Entities, (ii) all reasonable fees and expenses of the Indenture Trustee and Owner Trustee and their counsel and (iii) all reasonable fees and expenses of the Custodian and its counsel.

SECTION 6. Limited Effect. Except as expressly amended and modified by this Amendment, the Transaction Documents shall continue in full force and effect in accordance with its terms. Reference to this Amendment need not be made in any of the Transaction Documents 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 Transaction Documents, any reference in any of such items to the Transaction Documents being sufficient to refer to the Transaction Documents as amended hereby.

SECTION 7. 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 8. 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 9. 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 2005-7 in the exercise of the powers and authority conferred and vested in it, (b) each of the representations, undertakings and agreements herein made on the part of the Issuer is made and intended not as personal representations, undertakings and agreements by Wilmington Trust Company but is made and intended for the purpose for binding only the Issuer, (c) nothing herein contained shall be construed as creating any liability on Wilmington Trust Company, individually or personally, to perform any covenant either expressed or implied contained herein, all such liability, if any, being expressly waived by the parties hereto and by any Person claiming by, through or under the parties hereto and (d) under no circumstances shall Wilmington Trust Company be personally liable for the payment of any indebtedness or expenses of the Issuer or be liable for the breach or failure of any obligation, representation, warranty or covenant made or undertaken by the Issuer under this Amendment or any other related documents.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed and delivered by their duly authorized officers as of the day and year first above written.

OPTION ONE OWNER TRUST 2005-7

By: Wilmington Trust Company, not in its individual capacity but solely as owner trustee

By: ________________________________
Name:
Title:

OPTION ONE LOAN WAREHOUSE CORPORATION

By: ________________________________
Name:
Title:

OPTION ONE MORTGAGE CORPORATION

By: ________________________________
Name:
Title:

WELLS FARGO BANK, N.A.

By: ________________________________
Name:
Title:

HSBC BANK USA, N.A., as Committed Purchaser

By: ______________________________
Name:
Title:

BRYANT PARK FUNDING LLC, as Conduit Purchaser

By: ______________________________
Name:
Title:

HSBC SECURITIES (USA) INC., as Noteholder Agent

By: ______________________________
Name:
Title:

HSBC SECURITIES (USA) INC., as Administrative Agent

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: December 11, 2006

/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: December 11, 2006

/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 October 31, 2006 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Mark A. Ernst, Chief Executive Officer of the Company, certify pursuant to 18 U.S.C. § 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.
December 11, 2006

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 October 31, 2006 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.
December 11, 2006