H&R BLOCK INC
Form 10-Q
March 07, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended January 31, 2013

OR

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

Commission file number 1-6089

H&R Block, Inc.

(Exact name of registrant as specified in its charter)

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

One H&R Block Way

Kansas City, Missouri 64105

(Address of principal executive offices, including zip code)

(816) 854-3000

(Registrant s telephone number, including area code)

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

Yes __Ö__ No ______

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

Yes __Ö__ No ______

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

Large accelerated filer __Ö__ Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

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

The number of shares outstanding of the registrant s Common Stock, without par value, at the close of business on February 28, 2013 was 272,319,178 shares.

Form 10-Q for the Period Ended January 31, 2013

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CONSOLIDATED BALANCE SHEETS

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

As of	January 31, 2013 (Unaudited)	April 30, 2012
ASSETS		
Cash and cash equivalents	$ 418,385	$1,944,334
Cash and cash equivalents restricted	37,958	48,100
Receivables, less allowance for doubtful accounts of $44,829 and $44,589	949,160	193,858
Prepaid expenses and other current assets	331,046	314,702
Total current assets	1,736,549	2,500,994
Mortgage loans held for investment, less allowance for loan losses of $17,256 and $26,540	357,887	406,201
Investments in available-for-sale securities	396,312	371,315
Property and equipment, at cost, less accumulated depreciation and amortization of $581,246 and $622,313	290,165	252,985
Intangible assets, net	271,523	264,451
Goodwill	435,256	427,566
Other assets	444,804	426,055
Total assets	$3,932,496	$4,649,567
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities:		
Commercial paper borrowings	$ 424,967	$
Customer banking deposits	1,036,968	827,549
Accounts payable, accrued expenses and other current liabilities	479,660	567,079
Accrued salaries, wages and payroll taxes	103,538	163,992
Accrued income taxes	17,348	336,374
Current portion of long-term debt	713	631,434
Total current liabilities	2,063,194	2,526,428
Long-term debt	906,012	409,115
Other noncurrent liabilities	328,402	388,132
Total liabilities	3,297,608	3,323,675
Commitments and contingencies		
Stockholders equity:		
Common stock, no par, stated value $.01 per share, 800,000,000 shares authorized, shares issued of 316,628,110 and 397,886,599	3,166	3,979
Additional paid-in capital	747,398	796,784
Accumulated other comprehensive income	9,055	12,145
Retained earnings	723,676	2,523,997
Less treasury shares, at cost	(848,407)	(2,011,013)

Total stockholders equity	634,888	1,325,892
Total liabilities and stockholders equity	$ 3,932,496	$4,649,567

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited, amounts in 000s,

except per share amounts)

AND COMPREHENSIVE INCOME (LOSS)

	Three months ended January 31,		Nine months ended January 31,	
	2013	2012	2013	2012
Revenues:				
Service revenues	$ 362,194	$ 524,240	$ 558,528	$ 717,243
Product and other revenues	71,485	99,564	89,171	116,117
Interest income	38,300	39,476	58,032	59,737
	471,979	663,280	705,731	893,097
Expenses:				
Cost of revenues:				
Compensation and benefits	160,081	207,480	254,430	316,139
Occupancy and equipment	84,710	93,024	247,059	263,078
Depreciation/amortization of property and equipment	20,067	17,770	54,299	50,894
Provision for bad debt and loan losses	43,028	52,932	51,398	68,423
Interest	19,428	23,543	64,895	69,352
Other	50,304	60,491	110,972	127,551
	377,618	455,240	783,053	895,437
Impairment of goodwill				4,257
Selling, general and administrative expenses	186,997	211,736	352,802	408,144
	564,615	666,976	1,135,855	1,307,838
Operating loss	(92,636)	(3,696)	(430,124)	(414,741)
Other income (expense), net	(3,632)	2,670	2,299	9,185
Loss from continuing operations before taxes (benefit)	(96,268)	(1,026)	(427,825)	(405,556)
Income taxes (benefit)	(79,353)	2,541	(204,061)	(159,821)
Net loss from continuing operations	(16,915)	(3,567)	(223,764)	(245,735)
Net income (loss) from discontinued operations	(793)	218	(6,628)	(74,436)
Net loss	$ (17,708)	$ (3,349)	$ (230,392)	$ (320,171)
Basic and diluted loss per share:				
Net loss from continuing operations	$ (0.06)	$ (0.01)	$ (0.82)	$ (0.82)
Net income (loss) from discontinued operations	(0.01)		(0.02)	(0.25)
Net loss	$ (0.07)	$ (0.01)	$ (0.84)	$ (1.07)

Basic and diluted shares	271,542	292,963	273,281	299,450
Dividends paid per share	$ 0.20	$ 0.20	$ 0.60	$ 0.50
Comprehensive income (loss):				
Net loss	$ (17,708)	$ (3,349)	$ (230,392)	$ (320,171)
Unrealized gains (losses) on securities, net of taxes:				
Unrealized holding gains (losses) arising during the period, net of taxes (benefit) of $(405), $(199), $(122) and $1,113	(605)	(291)	(248)	1,682
Reclassification adjustment for gains included in income, net of taxes of $, $, $71 and $58			(104)	(93)
Change in foreign currency translation adjustments	975	3,341	(2,738)	(5,413)
Other comprehensive income (loss)	370	3,050	(3,090)	(3,824)
Comprehensive loss	$ (17,338)	$ (299)	$ (233,482)	$ (323,995)

See Notes to Consolidated Financial Statements

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited, amounts in 000s)

Nine months ended January 31,	2013	2012
Net cash used in operating activities	$ (1,311,926)	$ (1,382,771)
Cash flows from investing activities:		
Purchases of available-for-sale securities	(108,351)	(178,014)
Sales, maturities and payments received on available-for-sale securities	86,808	40,473
Principal repayments on mortgage loans held for investment, net	31,205	35,460
Purchases of property and equipment, net	(96,063)	(71,549)
Payments made for acquisitions of businesses and intangibles, net	(20,662)	(16,022)
Proceeds from sales of businesses, net	1,212	533,055
Franchise loans:		
Loans funded	(68,874)	(43,649)
Payments received	9,594	8,455
Other, net	(15,185)	15,321
Net cash provided by (used in) investing activities	(180,316)	323,530
Cash flows from financing activities:		
Repayments of commercial paper	(789,271)	(413,221)
Proceeds from commercial paper	1,214,238	644,168
Repayments of long-term debt	(636,621)	
Proceeds from issuance of long-term debt	497,185	
Customer banking deposits, net	208,753	735,252
Dividends paid	(162,692)	(150,058)
Repurchase of common stock, including shares surrendered	(340,298)	(180,566)
Proceeds from exercise of stock options, net	11,529	(324)
Other, net	(36,113)	(31,424)
Net cash provided by (used in) financing activities	(33,290)	603,827
Effects of exchange rates on cash	(417)	(3,446)
Net decrease in cash and cash equivalents	(1,525,949)	(458,860)
Cash and cash equivalents at beginning of the period	1,944,334	1,677,844
Cash and cash equivalents at end of the period	$ 418,385	$ 1,218,984
Supplementary cash flow data:		
Income taxes paid, net	$ 104,986	$ 163,471
Interest paid on borrowings	62,160	55,266
Interest paid on deposits	4,377	5,170
Transfers of foreclosed loans to other assets	7,208	6,521

See Notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

1. Summary of Significant Accounting Policies
Basis of Presentation

The consolidated balance sheet as of January 31, 2013, the consolidated statements of operations and comprehensive income (loss) for the three and nine months ended January 31, 2013 and 2012, and the condensed consolidated statements of cash flows for the nine months ended January 31, 2013 and 2012 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 January 31, 2013 and for all periods presented have been made. See note 14 for discussion of our presentation of discontinued operations.

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

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

Management Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Significant estimates, assumptions and judgments are applied in the determination of contingent losses arising from our discontinued mortgage business, contingent losses associated with pending claims and litigation, allowance for loan losses, fair value of reporting units, valuation allowances based on future taxable income, reserves for uncertain tax positions and related matters. Estimates have been prepared on the basis of the most current and best information available as of each balance sheet date. As such, actual results could differ materially from those estimates.

Seasonality of Business

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

2. Loss Per Share and Stockholders Equity
Basic and diluted loss per share is computed using the two-class method. The two-class method is an earnings allocation formula that determines net income per share for each class of common stock and participating security according to dividends declared and participation rights in undistributed earnings. Per share amounts are computed by dividing net income from continuing operations attributable to common shareholders by the weighted average shares outstanding during each period. The dilutive effect of potential common shares is included in diluted earnings per share except in those periods with a loss from continuing operations. Diluted earnings per share excludes the impact of shares of common stock issuable upon the lapse of certain restrictions or the exercise of options to purchase 7.7 million shares for the three and nine months ended January 31, 2013, and 9.6 million shares for the three and nine months ended January 31, 2012, as the effect would be antidilutive due to the net loss from continuing operations during those periods.

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

	(in 000s, except per share amounts)			
	Three months ended January 31,		Nine months ended January 31,	
	2013	2012	2013	2012
Net loss from continuing operations attributable to shareholders	$ (16,915)	$ (3,567)	$ (223,764)	$ (245,735)
Income (loss) allocated to participating securities (nonvested shares)	62	(24)	199	152
Net loss from continuing operations attributable to common shareholders	$ (16,977)	$ (3,543)	$ (223,963)	$ (245,887)
Basic weighted average common shares	271,542	292,963	273,281	299,450
Potential dilutive shares				
Dilutive weighted average common shares	271,542	292,963	273,281	299,450
Loss per share from continuing operations:				
Basic	$ (0.06)	$ (0.01)	$ (0.82)	$ (0.82)
Diluted	(0.06)	(0.01)	(0.82)	(0.82)

The weighted average shares outstanding for the three and nine months ended January 31, 2013 decreased to 271.5 million and 273.3 million, respectively, from 293.0 million and 299.5 million for the three and nine months ended January 31, 2012, respectively, primarily due to share repurchases completed during fiscal years 2013 and 2012. During the nine months ended January 31, 2013, we purchased and immediately retired 21.3 million shares of our common stock at a cost of $315.0 million. During the nine months ended January 31, 2012, we purchased and immediately retired 13.0 million shares of our common stock at a cost of $177.5 million. The cost of shares retired during each period was allocated to the components of stockholders equity as follows:

		(in 000s)
Nine months ended January 31,	2013	2012
Common stock	$ 213	$ 130
Additional paid-in capital	12,542	7,826
Retained earnings	302,245	169,548
	$ 315,000	$ 177,504

In addition to the shares we repurchased as described above, during the nine months ended January 31, 2013, we acquired 0.2 million shares of our common stock at an aggregate cost of $2.8 million. These shares represent shares swapped or surrendered to us in connection with the vesting or exercise of stock-based awards. During the nine months ended January 31, 2012, we acquired 0.2 million shares at an aggregate cost of $3.1 million for similar purposes.

We also retired 60.0 million shares of treasury stock during the nine months ended January 31, 2013. This retirement of treasury stock had no impact on our total consolidated stockholders equity. The cost of treasury shares retired during the current period was allocated to the following components of stockholders equity:

	(in 000s)
Common stock	$ 600
Additional paid-in capital	35,400
Retained earnings	1,104,797
Total cost allocated	1,140,797

Less cost of treasury shares retired	(1,140,797)
Net impact on consolidated stockholders equity	$

During the nine months ended January 31, 2013 and 2012, we issued 1.3 million and 1.0 million shares of common stock, respectively, due to the vesting or exercise of stock-based awards.

During the nine months ended January 31, 2013, we granted 1.0 million stock options and 1.5 million nonvested units under our stock-based compensation plans. The weighted average fair value of options granted was $2.79. Stock options or nonvested units granted generally either vest over a three year period with one-third vesting each year or cliff vest at the end of a three-year period. Stock-based compensation expense of our continuing operations totaled $3.7 million and $11.5 million for the three and nine months ended January 31, 2013, respectively, and $2.0 million and $11.0 million for the three and nine months ended January 31, 2012, respectively. At January 31, 2013, unrecognized compensation cost for options totaled $4.6 million, and for nonvested shares and units totaled $25.4 million.

3. Receivables

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

			(in 000s)
As of	January 31, 2013	January 31, 2012	April 30, 2012
Emerald Advance lines of credit	$ 462,576	$ 443,717	$ 23,717
Receivables for tax preparation and related fees	250,566	333,636	42,286
Loans to franchisees	110,560	81,415	61,252
Royalties from franchisees	69,627	88,597	5,781
RAC fees receivable	31,680	28,942	
Receivable from McGladrey & Pullen LLP		32,342	
Other	68,980	91,392	105,411
	993,989	1,100,041	238,447
Allowance for doubtful accounts	(44,829)	(64,139)	(44,589)
	$ 949,160	$ 1,035,902	$ 193,858

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

			(in 000s)
	Emerald Advance Lines of Credit	Loans to Franchisees	Credit Cards
As of January 31, 2013:			
Short-term	$ 462,576	$ 110,560	$ 4,220
Long-term	10,465	127,274	16,045
	$ 473,041	$ 237,834	$ 20,265
As of January 31, 2012:			
Short-term	$ 443,717	$ 81,415	$
Long-term	15,001	134,136	
	$ 458,718	$ 215,551	$
As of April 30, 2012:			
Short-term	$ 23,717	$ 61,252	$

Long-term	13,007	109,837	
	$ 36,724	$ 171,089	$

Emerald Advance Lines of Credit. We review the credit quality of our EA receivables based on pools, which are segregated by the year of origination, with older years being deemed more unlikely to be repaid. These amounts as of January 31, 2013, by year of origination, are as follows:

	(in 000s)
2013	$ 435,117
2012	6,936
2011	5,992
2010	3,493
2009 and prior	5,073
Revolving loans	16,430
	$ 473,041

As of January 31, 2013, January 31, 2012 and April 30, 2012, $30.7 million, $41.4 million and $31.4 million, respectively, of EAs were on non-accrual status and classified as impaired, or more than 60 days past due.

Loans to Franchisees. Loans made to franchisees at January 31, 2013 totaled $237.8 million, and consisted of $144.5 million in term loans and $93.3 million in revolving lines of credit made to existing franchisees primarily for the purpose of funding off-season working capital needs. Loans made to franchisees at January 31, 2012 totaled $215.6 million, and consisted of $150.4 million in term loans and $65.2 million in revolving lines of credit. Loans made to franchisees at April 30, 2012 totaled $171.1 million, and consisted of $127.0 million in term loans and $44.1 million in revolving lines of credit. As of January 31, 2013, we had no loans to franchisees that were past due or on non-accrual status.

Credit Cards. In November 2012, H&R Block Bank, (HRB Bank) began offering unsecured credit cards. These credit cards are offered to selected customers, primarily previous H&R Block clients, based on their credit profile and have a maximum available credit limit of $2,500. Interest income on credit cards is calculated using the average daily balance method and is recognized based on the principal amount outstanding until the outstanding balance is paid or becomes delinquent.

We believe that delinquency rates are the primary indictor of credit quality; however, we also utilize a four-tier approach with Tier 4 representing the most risk. Each tier is comprised of a combination of FICO, Vantage and industry predictive loss models. We do not consider the borrower s credit score to be a primary indicator since it tends to be a lagging indicator of credit quality. All criteria are evaluated at the time of origination, and are not subsequently updated. Credit card receivable balances as of January 31, 2013, by credit tier, are as follows:

	(in 000s)
Tier 1	$ 3,779
Tier 2	8,818
Tier 3	2,660
Tier 4	5,008
	$20,265

Credit card receivables are evaluated for impairment when they become delinquent. Amounts deemed to be uncollectible are charged off against the related allowance. As of January 31, 2013, none of these credit card balances were on non-accrual status and classified as impaired, or more than 60 days past due. Payments on past due amounts are recorded as a reduction in the receivable balance.

Allowance for Doubtful Accounts. Activity in the allowance for doubtful accounts for the nine months ended January 31, 2013 and 2012 is as follows:

(in 000s)

	Balance as of April 30, 2012	Provision	Charge-offs	Balance as of January 31, 2013
Emerald Advance lines of credit	$ 6,200	$ 25,519	$	$ 31,719
Loans to franchisees		42		42
Credit cards		4,255		4,255
All other receivables	38,389	10,666	(40,242)	8,813
Total	$ 44,589	$ 40,482	$ (40,242)	$ 44,829

	Balance as of April 30, 2011	Provision	Charge-offs	Balance as of January 31, 2012
Emerald Advance lines of credit	$ 4,400	$ 33,570	$	$ 37,970
Loans to franchisees				
Credit cards				
All other receivables	43,543	17,062	(34,436)	26,169
Total	$ 47,943	$ 50,632	$ (34,436)	$ 64,139

We recorded an allowance for credit card receivables equal to 21% of amounts outstanding, based on industry information for similar credit cards. We will adjust our allowance in the future as payment and delinquency trends become available.

There were no changes to our methodology related to the calculation of our allowance for doubtful accounts during the nine months ended January 31, 2013.

4. Mortgage Loans Held for Investment and Related Assets

The composition of our mortgage loan portfolio as of January 31, 2013 and April 30, 2012 is as follows:

(dollars in 000s)

As of	January 31, 2013		April 30, 2012	
	Amount	% of Total	Amount	% of Total
Adjustable-rate loans	$ 203,624	55%	$ 238,442	56%
Fixed-rate loans	168,515	45%	190,870	44%
	372,139	100%	429,312	100%
Unamortized deferred fees and costs	3,004		3,429	
Less: Allowance for loan losses	(17,256)		(26,540)	
	$357,887		$ 406,201	

Our loan loss allowance as a percent of mortgage loans was 4.6% at January 31, 2013, compared to 6.2% at April 30, 2012.

Activity in the allowance for loan losses for the nine months ended January 31, 2013 and 2012 is as follows:

		(in 000s)
Nine months ended January 31,	2013	2012
Balance, beginning of the period	$ 26,540	$ 92,087
Provision	10,250	17,275
Recoveries	2,745	160
Charge-offs	(22,279)	(19,573)
Balance, end of the period	$ 17,256	$ 89,949

Our allowance decreased significantly from the prior year primarily due to a change in the fourth quarter of fiscal year 2012, whereby we now charge-off loans 180 days past due to the value of the collateral less costs to sell. This change did not have a significant impact on our provision recorded during the nine months ended January 31, 2013.

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

(in 000s)

As of	January 31, 2013		April 30, 2012	
	Portfolio Balance	Related Allowance	Portfolio Balance	Related Allowance
Pooled	$ 219,345	$ 6,670	$ 248,772	$ 9,237
Impaired:				
Individually (TDRs)	59,295	5,013	71,949	7,752
Individually	93,499	5,573	108,591	9,551
	$ 372,139	$ 17,256	$ 429,312	$ 26,540

Our portfolio includes loans originated by Sand Canyon Corporation, previously known as Option One Mortgage Corporation, and its subsidiaries (SCC) and purchased by HRB Bank, which constitute 57% of the total loan portfolio at January 31, 2013. We have experienced higher rates of delinquency and believe that we have greater exposure to loss with respect to this segment of our loan portfolio. Our remaining loan portfolio is characteristic of a prime loan portfolio, and we believe therefore subject to a lower loss exposure. Detail of our mortgage loans held for investment and the related allowance at January 31, 2013 is as follows:

(dollars in 000s)

	Outstanding	Loan Loss Allowance		% 30+ Days
	Principal Balance	Amount	% of Principal	Past Due
Purchased from SCC	$ 212,250	$ 13,596	6.4%	34.5%
All other	159,889	3,660	2.3%	9.2%
	$ 372,139	$ 17,256	4.6%	23.6%

Credit quality indicators at January 31, 2013 include the following:

(in 000s)

Credit Quality Indicators	Purchased from SCC	All Other	Total Portfolio
Occupancy status:			
Owner occupied	$ 154,470	$ 102,180	$ 256,650
Non-owner occupied	57,780	57,709	115,489
	$ 212,250	$ 159,889	$ 372,139
Documentation level:			
Full documentation	$ 68,413	$ 116,591	$ 185,004
Limited documentation	6,889	16,775	23,664
Stated income	118,100	16,385	134,485
No documentation	18,848	10,138	28,986
	$ 212,250	$ 159,889	$ 372,139

Internal risk rating:			
High	$ 68,645	$	$ 68,645
Medium	143,605		143,605
Low		159,889	159,889
	$ 212,250	$ 159,889	$ 372,139

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

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

Detail of the aging of the mortgage loans in our portfolio as of January 31, 2013 is as follows:

						(in 000s)
	Less than 60 Days Past Due	60 89 Days Past Due	90+ Days Past Due [1]	Total Past Due	Current	Total
Purchased from SCC	$16,752	$3,084	$69,905	$ 89,741	$ 122,509	$ 212,250
All other	7,168	1,089	12,931	21,188	138,701	159,889
	$23,920	$4,173	$82,836	$ 110,929	$ 261,210	$ 372,139

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

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

		(in 000s)
As of	January 31, 2013	April 30, 2012
Loans:		
Purchased from SCC	$ 76,235	$ 88,347
Other	15,761	16,626
	91,996	104,973
TDRs:		
Purchased from SCC	3,460	3,166
Other	504	1,270
	3,964	4,436
Total non-accrual loans	$ 95,960	$ 109,409

Information related to impaired loans is as follows:

				(in 000s)
	Balance With Allowance	Balance With No Allowance	Total Impaired Loans	Related Allowance
As of January 31, 2013:				
Purchased from SCC	$38,938	$ 88,671	$127,609	$ 8,470

Other	6,757	18,428	25,185	2,116
	$45,695	$107,099	$152,794	$10,586
As of April 30, 2012:				
Purchased from SCC	$56,128	$ 97,591	$153,719	$14,917
Other	7,137	19,684	26,821	2,386
	$63,265	$117,275	$180,540	$17,303

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

As of	January 31, 2013	(in 000s) April 30, 2012
Portion of total allowance for loan losses allocated to impaired loans and TDR loans:		
Based on collateral value method	$ 5,573	$ 9,551
Based on discounted cash flow method	5,013	7,752
	$10,586	$17,303

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

Nine months ended January 31,	2013	(in 000s) 2012
Average impaired loans:		
Purchased from SCC	$ 137,703	$ 224,002
All other	25,879	35,421
	$ 163,582	$ 259,423
Interest income on impaired loans:		
Purchased from SCC	$ 2,940	$ 4,340
All other	232	348
	$ 3,172	$ 4,688
Interest income on impaired loans recognized on a cash basis on non-accrual status:		
Purchased from SCC	$ 2,881	$ 4,182
All other	214	324
	$ 3,095	$ 4,506

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

Nine months ended January 31,	2013	(in 000s) 2012
Balance, beginning of the period	$ 14,972	$ 19,532
Additions	7,208	6,521
Sales	(6,652)	(7,933)
Writedowns	(1,676)	(2,193)
Balance, end of the period	$ 13,852	$ 15,927

5. Investments in Available-for-Sale Securities

The amortized cost and fair value of securities classified as available-for-sale (AFS) held at January 31, 2013 and April 30, 2012 are summarized below:

As of	January 31, 2013				April 30, 2012			(in 000s)
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses [(1)]	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses [(1)]	Fair Value
Short-term:								
Municipal bonds	$ 1,000	$ 1	$	$ 1,001	$ 1,008	$ 29	$	$ 1,037
Long-term:								
Mortgage-backed securities	386,741	5,825	(780)	391,786	361,184	5,620	(121)	366,683
Municipal bonds	4,192	334		4,526	4,236	396		4,632
	390,933	6,159	(780)	396,312	365,420	6,016	(121)	371,315
Total	$ 391,933	$ 6,160	$ (780)	$ 397,313	$ 366,428	$ 6,045	$ (121)	$ 372,352

(1) At January 31, 2013, we had no securities that had been in a continuous loss position for more than twelve months. At April 30, 2012, mortgage-backed securities with a cost of $8.1 million and gross unrealized losses of $21 thousand had been in a continuous loss position for more than twelve months.

During the nine months ended January 31, 2013, we received proceeds from the sale of AFS securities of $5.2 million and recorded a gross realized gain of $0.2 million on this sale. We had no sales of AFS securities during the nine months ended January 31, 2012.

Contractual maturities of AFS debt securities at January 31, 2013, occur at varying dates over the next 30 years, and are set forth in the table below.

As of January 31, 2013	Cost Basis	(in 000s) Fair Value
Maturing in:		
Less than one year	$ 1,000	$ 1,001
Two to five years	4,192	4,526
More than five years	386,741	391,786
	$ 391,933	$ 397,313

6. Goodwill and Intangible Assets

Changes in the carrying amount of goodwill for the nine months ended January 31, 2013 consist of the following:

	(in 000s) Tax Services

Balance at April 30, 2012:	
Goodwill	$459,863
Accumulated impairment losses	(32,297)
	427,566
Changes:	
Acquisitions	7,650
Disposals and foreign currency changes, net	40
Balance at January 31, 2013:	
Goodwill	467,553
Accumulated impairment losses	(32,297)
	$435,256

We test goodwill for impairment annually or more frequently if events occur or circumstances change which would, more likely than not, reduce the fair value of a reporting unit below its carrying value.

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

						(in 000s)
As of		January 31, 2013				April 30, 2012
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Reacquired franchise rights	$ 214,330	$(17,174)	$ 197,156	$ 214,330	$(14,083)	$ 200,247
Customer relationships	108,596	(52,820)	55,776	90,433	(46,504)	43,929
Noncompete agreements	23,054	(21,627)	1,427	22,337	(21,425)	912
Franchise agreements	19,201	(5,334)	13,867	19,201	(4,373)	14,828
Purchased technology	14,800	(11,911)	2,889	14,700	(10,665)	4,035
Trade name	1,300	(892)	408	1,300	(800)	500
	$ 381,281	$(109,758)	$ 271,523	$ 362,301	$(97,850)	$ 264,451

Amortization of intangible assets of our continuing operations for the three and nine months ended January 31, 2013 totaled $4.6 and $14.4 million, respectively. Amortization of intangible assets of our continuing operations for the three and nine months ended January 31, 2012 totaled $4.7 and $15.2 million, respectively. Additionally, we recorded an impairment of customer relationships of $4.0 million during the prior year period related to the discontinuation of the ExpressTax brand. Estimated amortization of intangible assets for fiscal years 2013 through 2017 is $17.6 million, $17.1 million, $13.7 million, $13.1 million and $12.4 million, respectively.

7. Borrowings

Borrowings consist of the following:

			(in 000s)
As of	January 31, 2013	January 31, 2012	April 30, 2012
Commercial paper outstanding	$ 424,967	$ 230,947	$
Senior Notes, 5.500%, due November 2022	$ 497,260	$	$
Senior Notes, 5.125%, due October 2014	399,588	399,364	399,412
Senior Notes, 7.875%, due January 2013		599,871	599,913
Other	9,877	41,002	41,224
Total long-term debt	906,725	1,040,237	1,040,549
Less: Current portion	(713)	(630,996)	(631,434)
	$ 906,012	$ 409,241	$ 409,115

We had commercial paper borrowings of $425.0 million at January 31, 2013, compared to $230.9 million at the same time last year. These borrowings were used to fund our off-season losses and cover our seasonal working capital needs.

On October 25, 2012, we issued $500.0 million of 5.50% Senior Notes. The Senior Notes are due November 1, 2022, and are not redeemable by the bondholders prior to maturity, although we have the right to redeem some or all of these notes at any time, at specified redemption prices. On October 25, 2012, we provided notice to the trustee of our intention to redeem the entire principal amount of the $600.0 million Senior Notes

due in January 2013. The redemption settled on November 26, 2012 at a price of $623.0 million, which included full payment of principal, a make-whole premium of $5.8 million and interest accrued up to the redemption date of $17.2 million. Proceeds of the $500.0 million Senior Notes and other cash balances were used to repay the $600.0 million Senior Notes. We recognized a loss on the extinguishment of this debt of $5.8 million during the three months ended January 31, 2013, which primarily represents the interest that would have been paid on these notes if they had not been redeemed prior to maturity. This loss is included in other income (expense), net on our consolidated statements of operations.

In August 2012, we terminated our previous committed line of credit (CLOC) agreement and we entered into a new five-year, $1.5 billion Credit and Guarantee Agreement (2012 CLOC). Funds available under the 2012 CLOC may be used for general corporate purposes or for working capital needs. The 2012 CLOC bears interest at an annual rate of LIBOR plus an applicable rate ranging from 0.750% to 1.45% or PRIME plus an applicable rate ranging from 0.000% to 0.450% (depending on the type of borrowing and our then current credit ratings) and includes an annual facility fee ranging from 0.125% to 0.300% of the committed amounts (also depending on our then current credit ratings). The 2012 CLOC is subject to various conditions, triggers, events or occurrences that could result in earlier termination and contains customary representations, warranties, covenants and events of default, including, without limitation: (1) a covenant requiring the Company to maintain a debt-to-EBITDA ratio calculated on a consolidated basis of no greater than (a) 3.50 for the fiscal quarters ending on April 30, July 31, and October 31 of each year and (b) 3.75 for the fiscal quarter ending on January 31 of each year; (2) a covenant requiring us to maintain an interest coverage (EBITDA-to-interest expense) ratio calculated on a consolidated basis of not less than 2.50 as of the last date of any fiscal quarter; and (3) covenants restricting our ability to incur additional debt, incur liens, merge or consolidate with other companies, sell or dispose of their respective assets (including equity interests), liquidate or dissolve, make investments, loans, advances, guarantees and acquisitions, and engage in certain transactions with affiliates or certain restrictive agreements. The 2012 CLOC includes provisions for an equity cure which could potentially allow us to independently cure a default. We had no balances outstanding under the 2012 CLOC at January 31, 2013. However, we may borrow amounts under the 2012 CLOC from time to time in the future to support working capital requirements or for other general corporate purposes.

8. Fair Value

Fair Value Measurement

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

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

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

The following table presents the assets that were remeasured at fair value on a recurring basis during the nine months ended January 31, 2013 and 2012 and the unrealized gains on those remeasurements:

(dollars in 000s)

	Total	Level 1	Level 2	Level 3	Gain
January 31, 2013:					
Mortgage-backed securities	$ 391,786	$	$ 391,786	$	$ 5,045
Municipal bonds	5,527		5,527		335
	$ 397,313	$	$ 397,313	$	$ 5,380
As a percentage of total assets	10.1%	%	10.1%	%	
January 31, 2012:					
Mortgage-backed securities	$ 306,475	$	$ 306,475	$	$ 2,956
Municipal bonds	7,712		7,712		451
	$ 314,187	$	$ 314,187	$	$ 3,407
As a percentage of total assets	6.5%	%	6.5%	%	

These AFS securities are carried at fair value on a recurring basis. These include certain agency and agency-sponsored mortgage-backed securities and municipal bonds. Quoted market prices are not available for these securities. As a result, we use a third-party pricing service to determine fair value and classify the securities as Level 2. The service s pricing model is based on market data and utilizes available trade, bid and other market information for similar securities. The fair values provided by third-party pricing service are reviewed and validated by management of HRB Bank. There were no transfers of AFS securities between hierarchy levels during the nine months ended January 31, 2013 and 2012.

The following table presents the assets that were remeasured at fair value on a non-recurring basis during the nine months ended January 31, 2013 and 2012 and the realized losses on those remeasurements:

(dollars in 000s)

	Total	Level 1	Level 2	Level 3	Loss
January 31, 2013:					
REO	$ 14,683	$	$	$ 14,683	$ (350)
Impaired mortgage loans held for investment	87,949			87,949	(8,509)
	$ 102,632	$	$	$ 102,632	$ (8,859)
As a percentage of total assets	2.6%	%	%	2.6%	
January 31, 2012:					
REO	16,883			16,883	(772)
Impaired mortgage loans held for investment	103,509			103,509	(6,986)
	$ 120,392	$	$	$ 120,392	$ (7,758)
As a percentage of total assets	2.5%	%	%	2.5%	

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

Real estate owned REO includes foreclosed properties securing mortgage loans. Foreclosed assets are recorded at estimated fair value, generally based on independent market prices or appraised values of the collateral, less costs to sell upon foreclosure. The assets are remeasured quarterly based on independent appraisals or broker price opinions. Subsequent holding period gains and losses arising from the sale of REO are reported when realized. Because our REO is valued based on significant inputs that are unobservable in the market and our own estimates of assumptions that we believe market participants would use in pricing the asset, these assets are classified as Level 3.

Impaired mortgage loans held for investment The fair value of impaired mortgage loans held for investment is generally based on the net present value of discounted cash flows for TDR loans or the appraised value of the underlying collateral for all other loans. Impaired and TDR loans are required to be evaluated at least annually, based on HRB Bank s Loan Policy. Impaired loans are typically remeasured every nine months, while TDRs are evaluated quarterly. These loans are classified as Level 3.

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

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

(dollars in 000s)

	Fair Value at January 31, 2013	Valuation Technique	Unobservable Input	Range (Weighted Average)
REO	$13,852	Third party pricing	Cost to list/sell	5% - 50% (6%)
			Loss severity	0% - 100% (52%)
Impaired mortgage loans held for investment non-TDRs	$87,926	Collateral-based	Cost to list/sell	0% - 45% (7%)
			Time to sell (months)	24 (24)
			Collateral depreciation	(24%) - 100% (45%)
			Loss severity	0% - 100% (58%)
Impaired mortgage loans held for investment TDRs	$54,282	Discounted cash flow	Aged default performance	30% - 50% (41%)
			Loss severity	0% - 21% (4%)

Estimated Fair Value of Financial Instruments

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

(in 000s)

As of	January 31, 2013		April 30, 2012		
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value	Fair Value Hierarchy
Assets:					
Cash and cash equivalents	$ 418,385	$ 418,385	$ 1,944,334	$ 1,944,334	Level 1
Cash and cash equivalents restricted	37,958	37,958	48,100	48,100	Level 1
Receivables, net short-term	949,160	949,160	193,858	193,858	Level 1
Mortgage loans held for investment, net	357,887	217,019	406,201	248,535	Level 3
Investments in available-for-sale securities	397,313	397,313	372,352	372,352	Level 2
Receivables, net long-term	158,228	158,228	127,468	127,468	Level 1 & 3
Note receivable (including interest)	59,213	67,048	55,444	55,444	Level 3
Liabilities:					
Deposits	1,041,942	1,042,282	833,047	831,251	Level 1 & 3
Long-term debt	906,725	946,793	1,040,549	1,077,223	Level 3

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

Cash and cash equivalents, including restricted Fair value approximates the carrying amount.

Receivables short-term For short-term balances, the carrying values reported in the balance sheet approximate fair market value due to the relative short-term nature of the respective instruments.

Mortgage loans held for investment, net The fair value of mortgage loans held for investment is determined using market pricing sources based on projected future cash flows of each individual asset, and loan characteristics including channel and performance characteristics.

Investments in available-for-sale securities We use a third-party pricing service to determine fair value. The service s pricing model is based on market data and utilizes available trade, bid and other market information for similar securities.

Receivables long-term The carrying values for the long-term portion of loans to franchisees approximate fair market value due to the variable interest rates (Level 1). Long-term EA receivables are carried at net realizable value which approximates fair value (Level 3). Net realizable value is determined based on historical collection rates. Credit card balances bear interest at a rate similar to available market rates and have been outstanding for less than three months, therefore carrying value approximates fair market value (Level 1).

Note receivable The fair value of the long-term note receivable from McGladrey & Pullen LLP (M&P) assumes no prepayment and is determined using market pricing sources for similar instruments based on projected future cash flows.

Deposits The fair value of deposits with no stated maturity such as non-interest-bearing demand deposits, checking, money market and savings accounts is equal to the amount payable on demand

(Level 1). The fair value of IRAs and other time deposits is estimated by discounting the future cash flows using the rates currently offered by HRB Bank for products with similar remaining maturities (Level 3).
Long-term debt The fair value of borrowings is based on rates currently available to us for obligations with similar terms and maturities, including current market yields on our Senior Notes.

9. Income Taxes

We file a consolidated federal income tax return in the United States with the Internal Revenue Service (IRS) and file tax returns in various state and foreign jurisdictions. Tax returns are typically examined and settled upon completion of the exam, with tax controversies settled through an appeal process.

In November 2012, we received written approval from the IRS Joint Committee on Taxation of the settlement of a majority of the issues related to the examination of our 1999 through 2007 U.S. federal consolidated tax returns. In the third quarter, we recorded the impact of the settlement which reduced uncertain tax benefits by $59.0 million, with $33.3 million of the total resulting in an income tax benefit in the quarter. Also reducing our tax expense is a further benefit of $10.0 million primarily related to interest adjustments, bringing the total tax benefit from the settlement to $43.3 million.

Except for three issues for which we are pursuing refund claims for tax years 2002 through 2007, which will remain open until resolved, these years are closed. In addition, U.S. federal consolidated tax returns for 2008 through 2010 are currently under examination.

We had gross unrecognized tax benefits of $146.6 million and $206.4 million at January 31, 2013 and April 30, 2012, respectively. The gross unrecognized tax benefits decreased $59.8 million net in the current year, due primarily to the settlement with the IRS during the third quarter. We believe it is reasonably possible that the balance of unrecognized tax benefits could decrease by approximately $18 million before January 31, 2014. This anticipated decrease is due primarily to the expiration of statutes of limitations and anticipated settlements of state audit issues. This amount is included in accrued income taxes in our consolidated balance sheet. The remaining amount is classified as long-term and is included in other noncurrent liabilities in the consolidated balance sheet.

10. Interest Income and Expense

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

				(in 000s)
	Three months ended January 31,		Nine months ended January 31,	
	2013	2012	2013	2012
Interest income:				
Emerald Advance lines of credit	$ 29,314	$ 30,062	$ 30,074	$ 30,297
Mortgage loans, net	4,120	4,948	12,705	15,760
Loans to franchisees	2,651	2,694	7,397	7,561
AFS securities	1,713	1,283	5,105	3,006
Other	502	489	2,751	3,113
	$ 38,300	$ 39,476	$ 58,032	$ 59,737
Interest expense:				
Borrowings	$ 17,642	$ 21,382	$ 60,391	$ 63,625
Deposits	1,786	2,011	4,504	5,275
FHLB advances		150		452
	$ 19,428	$ 23,543	$ 64,895	$ 69,352

11. Commitments and Contingencies

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

		(in 000s)
Nine months ended January 31,	2013	2012
Balance, beginning of period	$ 141,080	$ 140,603
Amounts deferred for new guarantees issued	14,202	19,471
Revenue recognized on previous deferrals	(57,505)	(57,254)
Balance, end of period	$ 97,777	$ 102,820

In addition to amounts accrued for our POM guarantee, we had accrued $14.9 million and $16.3 million at January 31, 2013 and April 30, 2012, respectively, related to our standard guarantee, which is included with our in-office tax preparation services. The current portion of this liability is included in accounts payable, accrued expenses and other current liabilities and the long-term portion is included in other noncurrent liabilities in the consolidated balance sheets,

We have accrued estimated contingent payments totaling $10.9 million and $6.8 million as of January 31, 2013 and April 30, 2012, respectively, related to recent acquisitions, with the short-term amount recorded in accounts payable, accrued expenses and deposits and the long-term portion included in other noncurrent liabilities. Estimates of contingent payments are typically based on expected financial performance of the acquired business and economic conditions at the time of acquisition. Should actual results differ materially from our assumptions, future payments made will differ from the above estimate and any differences will be recorded in our results from continuing operations.

We have contractual commitments to fund certain franchisees requesting revolving lines of credit. Our total obligation under these lines of credit was $90.0 million at January 31, 2013, and net of amounts drawn and outstanding, our remaining commitment to fund totaled $13.5 million.

We have contractual commitments to fund our credit card customers on their approved revolving lines of credit. Our total obligation under the credit card agreements was $30.5 million at January 31, 2013, and net of amounts outstanding, our remaining commitment to fund totaled $7.4 million.

We maintain compensating balances related to the 2012 CLOC, which are not legally restricted as to withdrawal. These balances totaled $0.4 million as of January 31, 2013.

We routinely enter into contracts that include embedded indemnifications that have characteristics similar to guarantees. Other guarantees and indemnifications of the Company and its subsidiaries include obligations to protect counterparties from losses arising from the following: (1) tax, legal and other risks related to the purchase or disposition of businesses; (2) penalties and interest assessed by federal and state taxing authorities in connection with tax returns prepared for clients; (3) indemnification of our directors and officers; and (4) third-party claims relating to various arrangements in the normal course of business. Typically, there is no stated maximum payment related to these indemnifications, and the terms of the indemnities may vary and in many cases are limited only by the applicable statute of limitations. The likelihood of any claims being asserted against us and the ultimate liability related to any such claims, if any, is difficult to predict. While we cannot provide assurance we will ultimately prevail in the event any such claims are asserted, we believe the fair values of guarantees and indemnifications relating to our continuing operations are not material as of January 31, 2013.

Variable Interests

We evaluated our financial interests in variable interest entities (VIEs) as of January 31, 2013 and determined that there have been no significant changes related to those financial interests.

12. Litigation and Related Contingencies

We are a defendant in a large number of litigation matters, arising both in the ordinary course of business and otherwise, including as described below. The matters described below are not all of the

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

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

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

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

For such matters where a loss is believed to be reasonably possible, but not probable, or the loss cannot be reasonably estimated, no accrual has been made. It is possible that litigation and regulatory matters could require us to pay damages or make other expenditures or accrue liabilities in amounts that could not be reasonably estimated at January 31, 2013. While the potential future liabilities could be material in the particular quarterly or annual periods in which they are recorded, based on information currently known, we do not believe any such liabilities are likely to have a material effect on our consolidated financial position, results of operations and cash flows. As of January 31, 2013, we accrued liabilities of $18.9 million, compared to $79.0 million at April 30, 2012. In addition, there are certain SCC contingencies described below and in note 13, which relate to representation and warranty claims that may be resolved through settlement or litigation and any resulting payment charged as a reduction to the accrual for representation and warranty claims.

For some matters where a liability has not been accrued, we are able to estimate a reasonably possible range of loss. For those matters, and for matters where a liability has been accrued, as of January 31, 2013, we estimate the aggregate range of reasonably possible losses in excess of amounts accrued to be approximately $0 to $119 million, of which approximately 78% relates to our discontinued operations.

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

Litigation and Other Claims, Including Indemnification Claims, Pertaining to Discontinued Mortgage Operations. Although SCC ceased its mortgage loan origination activities in December 2007 and sold its loan servicing business in April 2008, SCC and the Company have been, remain, and may in the future be subject to regulatory investigations, claims, including indemnification claims, and lawsuits pertaining to SCC s mortgage business activities that occurred prior to such termination and sale. These investigations, claims and lawsuits include actions by regulators, third party indemnitees including depositors and underwriters, individual plaintiffs, and cases in which plaintiffs seek to represent a class of

others alleged to be similarly situated. Among other things, these investigations, claims and lawsuits allege discriminatory or unfair and deceptive loan origination and servicing practices, fraud and other common law torts, rights to indemnification and violations of securities laws, the Truth in Lending Act (TILA), Equal Credit Opportunity Act and the Fair Housing Act. Given the impact of the financial crisis on the non-prime mortgage environment, the aggregate number of these investigations, claims and lawsuits has increased over time and is expected to continue to increase further. The amounts claimed in these investigations, claims and lawsuits are substantial in some instances, and the ultimate resulting liability is difficult to predict and thus in many cases cannot be reasonably estimated. In the event of unfavorable outcomes, the amounts that may be required to be paid in the discharge of liabilities or settlements could be substantial and could have a material impact on our consolidated financial position, results of operations and cash flows. Certain of these matters are described in more detail below.

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

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

On October 15, 2010, the Federal Home Loan Bank (FHLB) of Chicago filed a lawsuit in the Circuit Court of Cook County, Illinois (Case No. 10CH45033) styled *Federal Home Loan Bank of Chicago v. Bank of America Funding Corporation, et al.* against multiple defendants, including various SCC-related entities, H&R Block, Inc. and other entities, arising out of FHLB s purchase of RMBSs. The plaintiff seeks rescission and damages under state securities law and for common law negligent misrepresentation in connection with its purchase of two securities originated and securitized by SCC. These two securities had a total initial principal amount of approximately $50 million, of which approximately $40 million remains outstanding. The plaintiff agreed to voluntarily dismiss H&R Block, Inc. from the suit. The remaining defendants, including SCC, filed motions to dismiss, which the court denied. Defendants moved for leave to appeal and the circuit court denied the motion. We have not concluded that a loss related to this matter is probable, nor have we accrued a liability related to this matter. We believe SCC has meritorious defenses to the claims in this case and intends to defend the case vigorously, but there can be no assurances as to its outcome or its impact on our consolidated financial position, results of operations and cash flows.

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

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

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

As of January 31, 2013, underwriters and depositors were involved in multiple lawsuits related to securitization transactions in which SCC participated. These lawsuits allege a variety of claims, including violations of federal and state securities law and common law fraud, based on alleged materially inaccurate or misleading disclosures. Based on information currently available to SCC, it believes that the 14 lawsuits in which notice of a claim for indemnification has been made involve original investments of approximately $14 billion. Because SCC is not party to these lawsuits (with the exception of the *Federal Home Loan Bank of Chicago v. Bank of America Funding Corporation* case discussed above) and does not have control of this litigation, SCC does not have precise information about the amount of damages or other remedies being asserted or the defenses to the claims in such lawsuits. Additional lawsuits against the underwriters or depositors may be filed in the future, and SCC may receive additional notices of claims for indemnification from underwriters or depositors with respect to existing or new lawsuits. We have not concluded that a loss related to any of these indemnification claims is probable, nor have we accrued a liability related to any of these claims. We believe SCC has meritorious defenses to these indemnification claims and intends to defend them vigorously, but there can be no assurance as to their outcome or their impact on our consolidated financial position, results of operations and cash flows.

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

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

A class was certified in the *Williams* case in March 2011 (consisting of office managers who worked in company-owned offices in California from 2004 to 2011). To avoid the cost and inherent risk associated with litigation, we reached an agreement to settle the case in February 2012, subject to approval by the court. The settlement provided for a maximum payment of $7.5 million, with the actual cost of the settlement dependent on the number of valid claims submitted by class members. The court granted final approval of the settlement on November 8, 2012. An appeal was filed, but subsequently withdrawn, rendering the settlement final. We previously recorded a liability for our estimate of the expected loss under the settlement.

In the *Ugas* case, the court initially certified a class on the claim for failure to provide meal periods (consisting of tax professionals who worked in company-owned offices in California from 2006 to 2011), but subsequently decertified the class in a ruling dated July 9, 2012. The Ninth Circuit Court of Appeals declined to hear an appeal. The court also certified a class on the claim for failure to compensate tax professionals for all hours worked (consisting of tax professionals who worked in company-owned offices in one district in California from 2006-2009). That class remains pending. A trial date has been set for October 21, 2013. We have not concluded that a loss related to this matter is probable, nor have we accrued a loss contingency related to this matter. We believe we have meritorious defenses to the claims in this case and intend to defend them vigorously, but there can be no assurances as to the outcome of the case or its impact on our consolidated financial position, results of operations and cash flows.

In the *Petroski* case, a conditional class was certified under the Fair Labor Standards Act in March 2011 (consisting of tax professionals nationwide who worked in company-owned offices and who were not compensated for certain training courses occurring on or after April 15, 2007). Two classes were also certified under state laws in California and New York (consisting of tax professionals who worked in company-owned offices in those states). We filed motions to decertify the classes, along with motions for summary judgment, which remain pending. A trial date has been set for June 10, 2013. We have not concluded that a loss related to this matter is probable, nor have we accrued a loss contingency related to this matter. We believe we have meritorious defenses to the claims in this matter and intend to defend them vigorously, but there can be no assurances as to the outcome of the matter or its impact on our consolidated financial position, results of operations and cash flows.

RAL and RAC Litigation. We have been named in a putative class action styled *Sandra J. Basile, et al. v. H&R Block, Inc., et al.*, April Term 1992 Civil Action No. 3246 in the Court of Common Pleas, First Judicial District Court of Pennsylvania, Philadelphia County, instituted on April 23, 1993. The plaintiffs allege inadequate disclosures with respect to the refund anticipation loan (RAL) product and assert claims for violation of consumer protection statutes, negligent misrepresentation, breach of fiduciary duty, common law fraud, usury, and violation of the TILA. Plaintiffs seek unspecified actual and punitive damages, injunctive relief, attorneys fees and costs. A Pennsylvania class was certified, but later decertified by the trial court in December 2003. The intermediate appellate court subsequently reversed the decertification decision. On September 7, 2012, the Pennsylvania Supreme Court reversed the

decision of the intermediate appellate court, thereby allowing the trial court s decertification ruling to stand. We have not concluded that a loss related to this matter is probable, nor have we accrued a loss contingency related to this matter. We believe we have meritorious defenses to this case and intend to defend the case vigorously, but there can be no assurances as to the outcome of this case or its impact on our consolidated financial position, results of operations and cash flows.

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

Compliance Fee Litigation. On April 16, 2012 and April 19, 2012, putative class action lawsuits were filed against us in Missouri state and federal courts, respectively, concerning a compliance fee charged to retail tax clients in the 2011 and 2012 tax seasons. These cases are styled *Manuel H. Lopez III v. H&R Block, Inc., et al.*, in the Circuit Court of Jackson County, Missouri (Case # 1216CV12290), and *Ronald Perras v. H&R Block, Inc., et al*., in the United States District Court for the Western District of Missouri (Case No. 4:12-cv-00450-DGK). Taken together, the plaintiffs seek to represent all retail tax clients nationwide who were charged the compliance fee, and assert claims of violation of state consumer laws, money had and received, and unjust enrichment. We are seeking to compel arbitration on certain claims. We have not concluded that a loss related to these lawsuits is probable, nor have we accrued a liability related to either of these lawsuits. We believe we have meritorious defenses to the claims in these cases and intend to defend the cases vigorously, but there can be no assurances as to the outcome of these cases or their impact on our consolidated financial position, results of operations and cash flows.

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

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

Litigation and Claims Pertaining to the Discontinued Operations of RSM McGladrey. On April 17, 2009, a shareholder derivative complaint was filed by Brian Menezes, derivatively and on behalf of nominal defendant International Textile Group, Inc. against McGladrey Capital Markets LLC (MCM) in the Court of Common Pleas, Greenville County, South Carolina (C.A. No. 2009-CP-23-3346) styled *Brian P. Menezes, Derivatively on Behalf of Nominal Defendant, International Textile Group, Inc. (f/k/a Safety Components International, Inc.) v. McGladrey Capital Markets, LLC (f/k/a RSM EquiCo Capital*

Markets, LLC), et al. Plaintiffs filed an amended complaint in October 2011 styled *In re International Textile Group Merger Litigation*, adding a putative class action claim. Plaintiffs allege claims of aiding and abetting, civil conspiracy, gross negligence and breach of fiduciary duty against MCM in connection with a fairness opinion MCM provided to the Special Committee of Safety Components International, Inc. (SCI) in 2006 regarding the merger between International Textile Group, Inc. and SCI. Plaintiffs seek actual and punitive damages, pre-judgment interest, attorneys fees and costs. On February 8, 2012, the court dismissed plaintiffs civil conspiracy claim against all defendants. A class was certified on the remaining claims on November 20, 2012. We have not concluded that a loss related to this matter is probable, nor have we established a loss contingency related to this matter. We believe we have meritorious defenses to the claims in this case and intend to defend the case vigorously, but there can be no assurances as to its outcome or its impact on our consolidated financial position, results of operations and cash flows.

In connection with the sale of RSM McGladrey, Inc. (RSM) and MCM, we indemnified the buyers against certain litigation matters. The indemnities are not subject to a stated term or limit. A portion of our accrual is related to these indemnity obligations.

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

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

13. **Loss Contingencies Arising From Representations and Warranties of Our Discontinued Mortgage Operations Overview.** SCC ceased originating mortgage loans in December 2007 and, in April 2008, sold its servicing assets and discontinued its remaining operations. The sale of servicing assets did not include the sale of any mortgage loans.

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

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

						(in millions)
Received in Fiscal Year	2009	2010	2011	2012	2013	Total
Loan Origination Year:						
2005	$ 62	$ 15	$ 8	$ 4	$ 22	$ 111
2006	217	108	194	325	133	977
2007	153	22	16	763	13	967
Total	$ 432	$ 145	$ 218	$ 1,092	$ 168	$2,055

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

Approximately 95% of claims relate to loans originated in calendar years 2006 and 2007. During calendar years 2006 and 2007, SCC originated approximately $42 billion in loans, of which approximately 1% were sold directly to government sponsored entities. Government sponsored entities also purchased bonds backed by SCC-originated mortgage loans and, with respect to these bonds, have the same rights as other certificate holders in private label securitizations. Due to a variety of substantive defenses and other reasons, SCC may not be subject to representation and warranty losses on loans, including without limitation loans that have been paid in full, liquidated, repurchased, or were sold without recourse.

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

SCC received $168 million in claims during the nine months ended January 31, 2013, most of which were asserted by a private-label securitization trustee or servicer on behalf of certificate holders ($144 million), with the remainder asserted by monoline insurers ($15 million) and Fannie Mae ($9 million). During the fiscal year ended April 30, 2012, SCC received claims totaling $1.1 billion. The amount of claims received varies from period to period, and these variances have been and could continue to fluctuate substantially.

During fiscal year 2013, SCC has either entered into, or is in discussions with several parties for tolling agreements to extend any applicable statute of limitations related to potential representation and warranty claims and other claims against SCC involving substantial amounts. SCC has experienced a recent decline in representation and warranty claims, which it believes may be partially attributable to the existence of these tolling agreements, and this may continue until the tolling agreements are terminated.

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

SCC has accrued a liability as of January 31, 2013 for estimated contingent losses arising from representations and warranties on loans it originated of $118.8 million, which represents SCC s estimate of the probable loss that may occur. While SCC uses what it believes to be the best information available to it in estimating its liability, assessing the likelihood that claims will be asserted in the future and estimating

probable losses are inherently subjective and require considerable management judgment. To the extent that the volume of claims, the level of claims (including whether the loan has been liquidated), the level of disputed claims, the level of threatened claims, the counterparties asserting claims, the nature and severity of claims, the outcome of various litigation related to claims, or the value of residential home prices, among other factors, differ in the future from current estimates, future losses may differ from the current estimates and those differences may be significant. Because of these numerous uncertainties, SCC is not able to estimate reasonably possible loss outcomes in excess of its current accrual. However, such possible loss outcomes may be significant. A 1% increase in loss severities and a 1% decrease in assumed denial rates would result in losses beyond SCC s accrual of approximately $27 million. This sensitivity is hypothetical and is intended to provide an indication of the impact of a change in key assumptions on this loss contingency. In reality, changes in one assumption may result in changes in other assumptions, which could affect the sensitivity and the amount of losses.

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

		(in 000s)
Nine months ended January 31,	2013	2012
Balance at beginning of period	$ 130,018	$ 126,260
Provisions		20,000
Payments	(11,253)	(3,337)
Balance at end of period	$ 118,765	$ 142,923

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

Settlement Actions. SCC has vigorously contested any request for repurchase when it has concluded that a valid basis for repurchase does not exist and will continue to do so in the future.

American International Group, Inc. (AIG) had threatened to assert claims of various types in the approximate amount of $650 million in connection with the sale and securitization of SCC-originated mortgage loans. On December 21, 2012, SCC and AIG entered into an agreement to resolve all of AIG s claims, except that AIG retained the right to benefit from payments for representation and warranty claims by third parties, without AIG s assistance or encouragement, that are made to securitization trusts in which AIG has a continuing interest.

SCC may enter into other bulk settlements it believes to be advantageous in lieu of a loan-by-loan review process. In addition, there are certain SCC contingencies described in note 12 that include representation and warranty claims that may be resolved through settlement or litigation. Any resulting payment from such settlements would be charged as a reduction to the accrual for representation and warranty claims.

Indemnification obligations. Losses may also be incurred with respect to various indemnification claims related to loans and securities SCC originated and sold. Losses from indemnification obligations can be significant and are frequently not subject to a stated term or limit. SCC believes it is not probable that it will be required to perform under its indemnification obligations; however, there can be no assurances as to the outcome or impact on our consolidated financial position, results of operations and cash flows related to claims which may arise from those indemnification obligations.

Reviewed Claims. Since May 2008, SCC has denied approximately 94% of all claims reviewed, excluding loans covered by other settlements. Of the denied claims, 1% related to loans that have been paid in full and 1% of claims were denied because they related to loans which have been liquidated. Paid claim loss severity rates have approximated 64% and SCC has not observed any material trends related to average losses. Repurchased loans are considered held for sale and are included in prepaid expenses and other current assets on the consolidated balance sheets.

SCC generally has 60 to 120 days to respond to a claimed breach of a representation and warranty and performs a loan-by-loan review of all claims during this time. Counterparties are able to reassert claims that SCC has denied. Claims totaling approximately $42 million remained subject to review as of January 31, 2013, of which, approximately $20 million represent a reassertion of previously denied claims.

14. Discontinued Operations

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

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

				(in 000s)
	Three months ended January 31,		Nine months ended January 31,	
	2013	2012	2013	2012
Revenues	$	$ 50,508	$	$ 416,436
Pretax income (loss) from operations:				
RSM and related businesses	$ (511)	$ 1,117	$ (204)	$ 18,831
Mortgage	(765)	(27,385)	(10,639)	(54,019)
	(1,276)	(26,268)	(10,843)	(35,188)
Income tax benefit	(483)	(6,462)	(4,215)	(10,268)
Net loss from operations	(793)	(19,806)	(6,628)	(24,920)
Pretax loss on sales of businesses		(236)		(109,485)
Income tax benefit		(20,260)		(59,969)
Net gain (loss) on sales of businesses		20,024		(49,516)
Net income (loss) from discontinued operations	$ (793)	$ 218	$ (6,628)	$ (74,436)

15. Regulatory Requirements HRB Bank

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

						(dollars in 000s)
	Actual		Minimum Capital Requirement		Minimum to be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2012:						

Total risk-based capital ratio [1]	$ 469,979	61.9%	$ 60,747	8.0%	$ 75,934	10.0%
Tier 1 risk-based capital ratio [2]	460,341	60.6%	N/A	N/A	45,561	6.0%
Tier 1 capital ratio (leverage) [3]	460,341	29.7%	62,041	4.0%[5]	77,551	5.0%
Tangible equity ratio [4]	460,341	29.7%	23,265	1.5%	N/A	N/A
As of March 31, 2012:						
Total risk-based capital ratio [1]	$ 458,860	120.3%	$ 30,513	8.0%	$ 38,141	10.0%
Tier 1 risk-based capital ratio [2]	453,800	119.0%	N/A	N/A	22,885	6.0%
Tier 1 capital ratio (leverage) [3]	453,800	29.4%	185,252	12.0%	77,188	5.0%
Tangible equity ratio [4]	453,800	29.4%	23,157	1.5%	N/A	N/A

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

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

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

(4) Tangible capital divided by tangible assets.

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

As of January 31, 2013, HRB Bank s leverage ratio was 30.4%.

16. Segment Information

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

				(in 000s)
	Three months ended January 31,		Nine months ended January 31,	
	2013	2012	2013	2012
Revenues:				
Tax Services	$ 464,634	$ 655,701	$ 684,706	$ 868,144
Corporate and eliminations	7,345	7,579	21,025	24,953
	$ 471,979	$ 663,280	$ 705,731	$ 893,097
Pretax income (loss):				
Tax Services	$ (64,189)	$ 31,716	$ (335,203)	$ (311,733)
Corporate and eliminations	(32,079)	(32,742)	(92,622)	(93,823)
Loss from continuing operations before tax benefit	$ (96,268)	$ (1,026)	$ (427,825)	$ (405,556)

17. New Accounting Standards

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

18. Condensed Consolidating Financial Statements

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

Condensed Consolidating Statements of Operations and Comprehensive Income (Loss) (in 000s)

Three months ended January 31, 2013	H&R Block, Inc. (Guarantor)	Block Financial (Issuer)	Other Subsidiaries	Eliminations	Consolidated H&R Block
Total revenues	$	$ 58,616	$ 414,858	$ (1,495)	$ 471,979
Cost of revenues		68,333	310,776	(1,491)	377,618
Selling, general and administrative		11,327	175,674	(4)	186,997
Total expenses		79,660	486,450	(1,495)	564,615
Operating loss		(21,044)	(71,592)		(92,636)
Other income (expense), net	(96,268)	(4,938)	1,306	96,268	(3,632)
Loss from continuing operations before tax benefit	(96,268)	(25,982)	(70,286)	96,268	(96,268)
Income tax benefit	(79,353)	(31,416)	(47,937)	79,353	(79,353)
Net income (loss) from continuing operations	(16,915)	5,434	(22,349)	16,915	(16,915)
Net loss from discontinued operations	(793)	(483)	(310)	793	(793)
Net income (loss)	(17,708)	4,951	(22,659)	17,708	(17,708)
Other comprehensive income (loss)	370	(569)	939	(370)	370
Comprehensive income (loss)	$ (17,338)	$ 4,382	$ (21,720)	$ 17,338	$ (17,338)

Three months ended January 31, 2012	H&R Block, Inc. (Guarantor)	Block Financial (Issuer)	Other Subsidiaries	Eliminations	Consolidated H&R Block
Total revenues	$	$ 65,604	$ 597,837	$ (161)	$ 663,280
Cost of revenues		77,965	377,436	(161)	455,240
Selling, general and administrative		9,705	202,031		211,736
Total expenses		87,670	579,467	(161)	666,976
Operating income (loss)		(22,066)	18,370		(3,696)
Other income (expense), net	(1,026)	1,301	1,369	1,026	2,670
Income (loss) from continuing operations before tax (benefit)	(1,026)	(20,765)	19,739	1,026	(1,026)
Income tax (benefit)	2,541	12,036	(9,495)	(2,541)	2,541
Net income (loss) from continuing operations	(3,567)	(32,801)	29,234	3,567	(3,567)
Net income (loss) from discontinued operations	218	(15,695)	15,913	(218)	218
Net income (loss)	(3,349)	(48,496)	45,147	3,349	(3,349)
Other comprehensive income (loss)	3,050	(335)	3,385	(3,050)	3,050
Comprehensive income (loss)	$ (299)	$ (48,831)	$ 48,532	$ 299	$ (299)

Nine months ended January 31, 2013	H&R Block, Inc. (Guarantor)	Block Financial (Issuer)	Other Subsidiaries	Eliminations	Consolidated H&R Block
Total revenues	$	$ 98,531	$ 608,773	$ (1,573)	$ 705,731
Cost of revenues		137,146	647,476	(1,569)	783,053
Selling, general and administrative		26,288	326,518	(4)	352,802
Total expenses		163,434	973,994	(1,573)	1,135,855
Operating loss		(64,903)	(365,221)		(430,124)
Other income (expense), net	(427,825)	(2,428)	4,727	427,825	2,299
Loss from continuing operations before tax benefit	(427,825)	(67,331)	(360,494)	427,825	(427,825)
Income tax benefit	(204,061)	(46,374)	(157,687)	204,061	(204,061)
Net loss from continuing operations	(223,764)	(20,957)	(202,807)	223,764	(223,764)
Net loss from discontinued operations	(6,628)	(6,503)	(125)	6,628	(6,628)
Net loss	(230,392)	(27,460)	(202,932)	230,392	(230,392)
Other comprehensive loss	(3,090)	(315)	(2,775)	3,090	(3,090)
Comprehensive loss	$ (233,482)	$ (27,775)	$ (205,707)	$ 233,482	$ (233,482)

Nine months ended January 31, 2012	H&R Block, Inc. (Guarantor)	Block Financial (Issuer)	Other Subsidiaries	Eliminations	Consolidated H&R Block
Total revenues	$	$ 104,937	$ 788,321	$ (161)	$ 893,097
Cost of revenues		152,605	742,993	(161)	895,437
Selling, general and administrative		24,044	388,357		412,401
Total expenses		176,649	1,131,350	(161)	1,307,838
Operating loss		(71,712)	(343,029)		(414,741)
Other income (expense), net	(405,556)	7,647	1,538	405,556	9,185
Loss from continuing operations before tax benefit	(405,556)	(64,065)	(341,491)	405,556	(405,556)
Income tax benefit	(159,821)	(4,877)	(154,944)	159,821	(159,821)
Net loss from continuing operations	(245,735)	(59,188)	(186,547)	245,735	(245,735)
Net loss from discontinued operations	(74,436)	(36,398)	(38,038)	74,436	(74,436)
Net loss	(320,171)	(95,586)	(224,585)	320,171	(320,171)
Other comprehensive income (loss)	(3,824)	1,430	(5,254)	3,824	(3,824)
Comprehensive loss	$ (323,995)	$ (94,156)	$ (229,839)	$ 323,995	$ (323,995)

Condensed Consolidating Balance Sheets (in 000s)

As of January 31, 2013	H&R Block, Inc. (Guarantor)	Block Financial (Issuer)	Other Subsidiaries	Eliminations	Consolidated H&R Block
Cash & cash equivalents	$	$ 294,816	$ 124,102	$ (533)	$ 418,385
Cash & cash equivalents restricted		1,613	36,345		37,958
Receivables, net	963	555,418	392,779		949,160
Mortgage loans held for investment		357,887			357,887
Intangible assets and goodwill, net			706,779		706,779
Investments in subsidiaries	2,834,612	556		(2,834,612)	556
Amounts due from affiliates	62	496,760	2,208,626	(2,705,448)	
Other assets	8,244	630,999	822,528		1,461,771
Total assets	$ 2,843,881	$ 2,338,049	$ 4,291,159	$ (5,540,593)	$ 3,932,496
Customer deposits	$	$ 1,037,501	$	$ (533)	$ 1,036,968
Commercial paper borrowings		424,967			424,967
Long-term debt		896,848	9,877		906,725
Other liabilities	367	251,833	676,748		928,948
Amounts due to affiliates	2,208,626	-	496,822	(2,705,448)	
Stockholders equity	634,888	(273,100)	3,107,712	(2,834,612)	634,888
Total liabilities and stockholders equity	$ 2,843,881	$ 2,338,049	$ 4,291,159	$ (5,540,593)	$ 3,932,496

As of January 31, 2013	H&R Block, Inc. (Guarantor)	Block Financial (Issuer)	Other Subsidiaries	Eliminations	Consolidated H&R Block
Cash & cash equivalents	$	$ 515,147	$ 1,430,030	$ (843)	$ 1,944,334
Cash & cash equivalents restricted		8,814	39,286		48,100
Receivables, net		90,755	103,103		193,858
Mortgage loans held for investment, net		406,201			406,201
Intangible assets and goodwill, net			692,017		692,017
Investments in subsidiaries	2,525,473		715	(2,525,473)	715
Amounts due from affiliates [1]	188	492,851	1,430,782	(1,923,821)	
Other assets	8,887	623,032	732,423		1,364,342
Total assets [1]	$ 2,534,548	$ 2,136,800	$ 4,428,356	$ (4,450,137)	$ 4,649,567
Customer deposits	$	$ 828,392	$	$ (843)	$ 827,549
Long-term debt		999,325	41,224		1,040,549
Other liabilities [1]	22,690	277,160	1,155,727		1,455,577
Amounts due to affiliates [1]	1,185,966	244,816	493,039	(1,923,821)	
Stockholders equity	1,325,892	(212,893)	2,738,366	(2,525,473)	1,325,892
Total liabilities and stockholders equity [1]	$ 2,534,548	$ 2,136,800	$ 4,428,356	$ (4,450,137)	$ 4,649,567

[1] Amounts as of April 30, 2012 have been restated to conform to the current period presentation, including the presentation of income tax receivables settled with affiliates and the presentation of intercompany receivables and payables gross, rather than net.

Condensed Consolidating Statements of Cash Flows (in 000s)

Nine months ended January 31, 2013	H&R Block, Inc. (Guarantor)	Block Financial (Issuer)	Other Subsidiaries	Eliminations	Consolidated H&R Block
Net cash provided by (used in) operating activities:	$ (158)	$ (408,904)	$ (902,864)	$	$ (1,311,926)
Cash flows from investing:					
Purchases of AFS securities		(108,351)			(108,351)
Maturities of AFS securities		86,756	52		86,808
Mortgage loans held for investment, net		31,205			31,205
Purchases of property & equipment, net		(58)	(96,005)		(96,063)
Payments made for acquisitions of businesses and intangibles, net			(20,662)		(20,662)
Proceeds from sales of businesses, net			1,212		1,212
Loans made to franchisees		(68,874)			(68,874)
Repayments from franchisees		9,594			9,594
Intercompany advances (payments)	491,619			(491,619)	
Other, net		(21,879)	6,694		(15,185)
Net cash provided by (used in) investing activities	491,619	(71,607)	(108,709)	(491,619)	(180,316)
Cash flows from financing:					
Repayments of commercial paper		(789,271)			(789,271)
Proceeds from commercial paper		1,214,238			1,214,238
Repayments of long-term debt		(605,790)	(30,831)		(636,621)
Proceeds from long-term debt		497,185			497,185
Customer banking deposits, net		208,443		310	208,753
Dividends paid	(162,692)				(162,692)
Repurchase of common stock	(340,298)				(340,298)
Proceeds from exercise of stock options, net	11,529				11,529
Intercompany advances (payments)		(251,638)	(239,981)	491,619	
Other, net		(12,987)	(23,126)		(36,113)
Net cash provided by (used in) financing activities	(491,461)	260,180	(293,938)	491,929	(33,290)
Effects of exchange rates on cash			(417)		(417)
Net decrease in cash		(220,331)	(1,305,928)	310	(1,525,949)
Cash beginning of period		515,147	1,430,030	(843)	1,944,334
Cash end of period	$	$ 294,816	$ 124,102	$ (533)	$ 418,385

Nine months ended January 31, 2012	H&R Block, Inc. (Guarantor)	Block Financial (Issuer)	Other Subsidiaries	Eliminations	Consolidated H&R Block
Net cash provided by (used in) operating activities:	$ 8,193	$ (448,362)	$ (942,602)	$	$ (1,382,771)
Cash flows from investing:					
Purchases of AFS securities		(178,014)			(178,014)
Maturities of AFS securities		39,400	1,073		40,473
Mortgage loans held for investment, net		35,460			35,460
Purchases of property & equipment, net		(152)	(71,397)		(71,549)
Payments made for acquisitions of businesses and intangibles, net			(16,022)		(16,022)
Proceeds from sale of businesses, net			533,055		533,055
Loans made to franchisees		(43,649)			(43,649)
Repayments from franchisees		8,455			8,455
Intercompany advances (payments)	322,729			(322,729)	
Other, net		7,830	7,491		15,321
Net cash provided by (used in) investing activities	322,729	(130,670)	454,200	(322,729)	323,530
Cash flows from financing:					
Repayments of commercial paper		(413,221)			(413,221)
Proceeds from commercial paper		644,168			644,168
Customer banking deposits, net		735,491		(239)	735,252
Dividends paid	(150,058)				(150,058)
Repurchase of common stock	(180,566)				(180,566)
Proceeds from exercise of stock options, net	(324)				(324)
Intercompany advances (payments)		61,747	(384,476)	322,729	
Other, net	26	57	(31,507)		(31,424)
Net cash provided by (used in) financing activities	(330,922)	1,028,242	(415,983)	322,490	603,827
Effects of exchange rates on cash			(3,446)		(3,446)
Net increase (decrease) in cash		449,210	(907,831)	(239)	(458,860)
Cash beginning of period		616,238	1,061,656	(50)	1,677,844
Cash end of period	$	$ 1,065,448	$ 153,825	$ (289)	$ 1,218,984

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

RECENT DEVELOPMENTS

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

Following tax law changes made by Congress on January 2, 2013, the Internal Revenue Service (IRS) announced it would delay acceptance and processing of individual tax returns until January 30 to allow sufficient time to complete necessary updates to forms and testing of its processing systems. This represents a nearly two-week delay compared with last tax season when the IRS began processing individual tax returns on January 17, 2012. We believe this delay resulted in an industry-wide delay to tax season filing patterns and, as described more fully below, a significant decline in our third quarter return volumes and revenues. In addition, at January 31 the IRS was continuing to update its systems for certain forms, and completed tax returns that included those forms could not be filed.

RESULTS OF OPERATIONS

Our subsidiaries provide tax preparation and retail banking services. Tax returns are either prepared by H&R Block tax professionals in a company-owned or franchise office or prepared and filed digitally by our clients through H&R Block At Home , either online or using our software. We are the only major company offering a full range of do-it-yourself (software and online) and assisted (including traditional in-office) tax preparation solutions to individual tax clients.

CONSOLIDATED RESULTS

A summary of our results of operations is as follows:

- Revenues for the quarter were $472.0 million, down 28.8% from the prior year, primarily due to a 28.7% decline in returns prepared by and through H&R Block, resulting from the IRS delay in accepting and processing tax returns until January 30.
- Operating expenses for the quarter declined 15.3% from the prior year due to the impact of lower volumes on variable expenses, litigation charges in the prior year, and actions we took at the beginning of this year to reduce workforce and close offices.
- We recorded discrete tax benefits of $42.9 million during the quarter of which $43.3 million was due to the settlement of the majority of the issues related to the examination of our 1999 through 2007 U.S. consolidated federal tax returns.
- Loss per share from continuing operations for the quarter was $0.06, compared to a loss per share of $0.01 in the prior year.

Results of our operations are as follows:

	Three months ended January 31,		Nine months ended January 31, (in 000s)	
	2013	2012	2013	2012
Revenues:				
Tax Services	$ 464,634	$ 655,701	$ 684,706	$ 868,144
Corporate and eliminations	7,345	7,579	21,025	24,953
	$ 471,979	$ 663,280	$ 705,731	$ 893,097
Pretax income (loss):				
Tax Services	$ (64,189)	$ 31,716	$ (335,203)	$ (311,733)
Corporate and eliminations	(32,079)	(32,742)	(92,622)	(93,823)
Loss from continuing operations before taxes (benefit)	$ (96,268)	$ (1,026)	$ (427,825)	$ (405,556)
Income taxes (benefit)	(79,353)	2,541	(204,061)	(159,821)
Net loss from continuing operations	(16,915)	(3,567)	(223,764)	(245,735)
Net income (loss) from discontinued operations	(793)	218	(6,628)	(74,436)
Net loss	$ (17,708)	$ (3,349)	$ (230,392)	$ (320,171)
Basic and diluted loss per share:				
Net loss from continuing operations	$ (0.06)	$ (0.01)	$ (0.82)	$ (0.82)
Net income (loss) from discontinued operations	(0.01)		(0.02)	(0.25)
Net loss	$ (0.07)	$ (0.01)	$ (0.84)	$ (1.07)
EBITDA from continuing operations [1]	$ (52,202)	$ 45,023	$ (295,688)	$ (270,077)
EBITDA from continuing operations adjusted [1]	(53,326)	49,233	(299,611)	(231,251)

[1] See Non-GAAP Financial Information at the end of Item 2 for a reconciliation of non-GAAP measures.

TAX SERVICES

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

Tax Services Operating Statistics (U.S. only)

	Three months ended January 31,		Nine months ended January 31,	
	2013	2012	2013	2012
Tax returns (in 000s): [1]				
Company-owned operations	1,511	2,172	1,695	2,351
Franchise operations	1,009	1,454	1,143	1,581
Total retail operations	2,520	3,626	2,838	3,932
Software	514	637	538	664
Online	954	1,228	1,057	1,330
Free File Alliance	61	185	86	208
Total digital tax solutions	1,529	2,050	1,681	2,202
	4,049	5,676	4,519	6,134

As of January 31,	2013	2012
Offices:		
Company-owned	5,734	5,787
Company-owned shared locations [2]	477	734
Total company-owned offices	6,211	6,521
Franchise	4,384	4,296
Franchise shared locations [2]	123	175
Total franchise offices	4,507	4,471
	10,718	10,992

(1) Fiscal year 2013 returns include approximately 57 thousand and 27 thousand company-owned and franchise returns, respectively, which were completed and ready to file at January 31, 2013, but could not be filed due to the unavailability of certain forms. Revenue related to these returns was deferred at January 31, 2013 and was recognized in the fourth quarter of fiscal year 2013.

(2) Shared locations include offices located within Wal-Mart and other third-party businesses.

Tax Services Operating Results

(in 000s)

	Three months ended January 31,		Nine months ended January 31,	
	2013	2012	2013	2012
Tax preparation fees:				
U.S.	$ 254,225	$ 410,420	$ 296,865	$ 452,730
International	20,411	18,136	88,912	83,991
	274,636	428,556	385,777	536,721
Royalties	56,211	79,517	71,692	93,149
Fees from refund anticipation checks	44,255	43,689	45,807	45,434
Interest income on Emerald Advance	29,314	30,062	30,074	30,297
Fees from Emerald Cards	11,379	12,193	31,716	31,094
Fees from Peace of Mind guarantees	11,950	11,181	57,505	57,254
Other	36,889	50,503	62,135	74,195
Total revenues	464,634	655,701	684,706	868,144
Compensation and benefits:				
Field wages	136,532	176,927	214,230	266,725
Administrative and support wages	37,039	42,619	105,998	110,222
Benefits and other compensation	32,369	41,086	65,908	78,531
	205,940	260,632	386,136	455,478
Marketing and advertising	99,262	117,128	118,100	137,037
Occupancy and equipment	84,631	93,554	246,749	263,369
Bad debt	39,528	48,406	41,148	51,147
Depreciation and amortization	24,557	22,425	68,421	69,866
Supplies	8,724	10,533	15,155	18,711
Other	66,181	71,307	144,200	184,269
Total expenses	528,823	623,985	1,019,909	1,179,877
Pretax income (loss)	$ (64,189)	$ 31,716	$ (335,203)	$ (311,733)

Three months ended January 31, 2013 compared to January 31, 2012

Tax Services revenues decreased $191.1 million, or 29.1% from the prior year. U.S. tax preparation fees decreased $156.2 million, or 38.1%, primarily due to a 30.4% decline in tax returns prepared in our company-owned offices, resulting from the IRS delay in accepting and processing tax returns until January 30. Additionally, revenue totaling $13.2 million was deferred at January 31, as related tax returns could not be filed electronically due to the unavailability of certain forms.

The business of our Tax Services segment is highly seasonal and results for our third quarter represent only a small portion of the tax season. Third quarter results are not indicative of the results we expect for the entire fiscal year. Tax returns prepared in company-owned and franchise offices through February 28, 2013 decreased 7.8% from the prior year. Digital tax returns through February 28, 2013 decreased 1.8% from the prior year. We believe these results are not indicative of results for the entire fiscal year due to the delayed start of the tax season.

Royalties decreased $23.3 million, or 29.3%, for the quarter due to a 30.6% decrease in tax returns prepared in franchise offices, which resulted primarily from the IRS filing deferral described above.

Fees earned from refund anticipation checks (RACs) were essentially flat to the prior year, as the delay to the start of the tax season negatively impacted the number of returns, but was almost entirely offset by the favorable impact resulting from our decision to not continue a promotion for free RACs offered last year.

Other revenues decreased $13.6 million, or 27.0%, primarily due to a 25.4% decrease in digital returns, which primarily resulted from the delayed start to the tax season. Additionally, digital revenue totaling $1.2 million was deferred at January 31, as related tax returns could not be filed due to the unavailability of certain forms.

Total expenses decreased $95.2 million, or 15.3%, from the prior year. Compensation and benefits declined $54.7 million, or 21.0%, primarily due to the decline in the number of returns prepared in company-owned offices. Marketing and advertising expenses declined $17.9 million, or 15.3%, primarily due to a decline in

early-season advertising. Occupancy and equipment expenses decreased $8.9 million, or 9.5%, primarily due to reductions in rent expense resulting from office closings. Bad debt declined $8.9 million, or 18.3%, due to lower Emerald Advance lines of credit (EA) and RAC volumes and favorable collection rates on EAs, partially offset by incremental expense from our new credit card offering. Other expenses declined $5.1 million, or 7.2%, primarily due to legal charges recorded in the prior year.

The pretax loss for the three months ended January 31, 2013 was $64.2 million compared to income of $31.7 million in the prior year, due primarily to the delayed start to the tax season described above.

Nine months ended January 31, 2013 compared to January 31, 2012

Tax Services revenues decreased $183.4 million, or 21.1%, from the prior year. U.S. tax preparation fees decreased $155.9 million, or 34.4%, primarily due to a 27.9% decline in tax returns prepared in our company-owned offices. The decline in tax returns prepared in company-owned offices was primarily the result of an industry-wide slow start to the tax season. Additionally, we deferred $13.2 million of revenue related to tax returns prepared which we were unable to file electronically due to the unavailability of certain forms.

International tax preparation fees increased $4.9 million, or 5.9%, due primarily to strong tax season results in Australia, partially offset by additional revenue in the prior year resulting from an extension of the Canadian tax season.

Royalties decreased $21.5 million, or 23.0%, for the current year due to a 27.7% decrease in tax returns prepared in franchise offices, which resulted primarily from the delayed start to the tax season described above.

Fees earned from RACs were essentially flat to the prior year, as the delay to the start of the tax season negatively impacted the number of returns, but was almost entirely offset by the favorable impact resulting from our decision to not continue a promotion for free RACs offered last year.

Other revenues decreased $12.1 million, or 16.3%, primarily due to a 23.7% decrease in digital returns, which primarily resulted from the delayed start to the tax season. Additionally, revenue totaling $1.2 million was deferred at January 31, as related tax returns could not be filed due to the unavailability of certain forms.

Total expenses decreased $160.0 million, or 13.6%, from the prior year. Compensation and benefits declined $69.3 million, or 15.2%, primarily due to the decline in returns prepared in company-owned offices and a reduction in force at the end of fiscal year 2012. Marketing and advertising expenses declined $18.9 million, or 13.8%, primarily due to a decline in early-season advertising. Occupancy and equipment expenses decreased $16.6 million, or 6.3%, primarily due to reductions in rent expense resulting from office closings. Bad debt declined $10.0 million, or 19.5% due to lower EA and RAC volumes and favorable collection rates on EAs, partially offset by incremental expense from our new credit card offering. Other expenses declined $40.1 million, or 21.7%, primarily due to legal charges recorded in the prior year.

The pretax loss for the nine months ended January 31, 2013 and 2012 was $335.2 million and $311.7 million, respectively.

CORPORATE, ELIMINATIONS AND INCOME TAXES ON CONTINUING OPERATIONS

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

Corporate and Eliminations Operating Results (in 000s)

	Three months ended January 31,		Nine months ended January 31,	
	2013	2012	2013	2012
Interest income on mortgage loans held for investment	$ 4,120	$ 4,948	$ 12,705	$ 15,760
Other	3,225	2,631	8,320	9,193
Total revenues	7,345	7,579	21,025	24,953
Interest expense	17,540	21,131	60,111	63,124
Provision for loan losses	3,500	4,525	10,250	17,275
Other	18,384	14,665	43,286	38,377

Total expenses	39,424	40,321	113,647	118,776
Pretax loss	$ (32,079)	$ (32,742)	$ (92,622)	$ (93,823)

Three months ended January 31, 2013 compared to January 31, 2012

The pretax loss for the three months ended January 31, 2013 totaled $32.1 million, which was essentially flat compared to the prior year. Interest expense declined $3.6 million, or 17.0%, due to lower interest rates on our Senior Notes, coupled with lower principal balances outstanding. Other expenses increased $3.7 million from the prior year primarily due to a $5.8 million loss we incurred on the early retirement of our $600.0 million Senior Notes.

Nine months ended January 31, 2013 compared to January 31, 2012

The pretax loss for the nine months ended January 31, 2013 totaled $92.6 million, an improvement of $1.2 million, or 1.3%, over the prior year. Interest income on mortgage loans and provisions for loan losses declined $3.1 million and $7.0 million, respectively, as a result of the continued run-off of our mortgage loan portfolio. Interest expense declined $3.0 million, or 4.8%, primarily due to lower interest rates on our Senior Notes. Other expenses increased $4.9 million from the prior year primarily due to a loss we incurred on the early retirement of our $600.0 million Senior Notes.

Income Taxes on Continuing Operations

Our effective tax rate for continuing operations was 47.7% and 39.4% for the nine months ended January 31, 2013 and 2012, respectively. Due to losses in both periods, a discrete tax benefit in either period increases the tax rate while an item of discrete tax expense decreases the tax rate. During the nine months ended January 31, 2013, a discrete tax benefit of $38.7 million was recorded compared to a discrete tax benefit of $1.3 million in the prior year. This difference in discrete tax benefit was largely due to differences in income tax reserve adjustments recorded. The majority of these income tax reserve adjustments were recorded in the third quarter of the current fiscal year due to a settlement with the IRS related to the 1999 through 2007 tax years.

DISCONTINUED OPERATIONS

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

Discontinued Operations Operating Results				(in 000s)
	Three months ended January 31,		Nine months ended January 31,	
	2013	2012	2013	2012
Revenues	$	$ 50,508	$	$ 416,436
Pretax income (loss) from operations:				
RSM and related businesses	$ (511)	$ 1,117	$ (204)	$ 18,831
Mortgage	(765)	(27,385)	(10,639)	(54,019)
	(1,276)	(26,268)	(10,843)	(35,188)
Income tax benefit	(483)	(6,462)	(4,215)	(10,268)
Net loss from operations	(793)	(19,806)	(6,628)	(24,920)
Pretax loss on sales of businesses		(236)		(109,485)
Income tax benefit		(20,260)		(59,969)
Net gain (loss) on sales of businesses		20,024		(49,516)
Net income (loss) from discontinued operations	$ (793)	$ 218	$ (6,628)	$ (74,436)

Three months ended January 31, 2013 compared to January 31, 2012

The net loss from our discontinued operations totaled $0.8 million for the three months ended January 31, 2013. Net income in the prior year totaled $0.2 million, and included incremental legal accruals recorded at SCC, offset by $20.5 million of capital loss carry-forwards used on the

sale of RSM.

Nine months ended January 31, 2013 compared to January 31, 2012

The net loss from our discontinued operations totaled $6.6 million for the nine months ended January 31, 2013. The net loss in the prior year totaled $74.4 million, and included a $99.7 million pretax goodwill impairment related to the sales of RSM McGladrey, Inc. (RSM) and McGladrey Capital Markets LLC (MCM), as well as off-season operating income earned prior to the sale.

The pretax loss related to the mortgage business included incremental legal accruals and $20.0 million in loss provisions related to SCC s estimated contingent losses for representation and warranty claims in the prior year.

Representation and Warranty Claims

SCC has accrued a liability as of January 31, 2013 for estimated contingent losses arising from representations and warranties on loans and securities it originated and sold, of $118.8 million, which represents SCC s estimate of the probable loss that may occur. Loss payments totaled $11.2 million and $3.3 million for the nine months ended January 31, 2013 and 2012, respectively. These amounts were recorded as reductions of SCC s accrued representation and warranty liability.

See additional discussion in Item 1, note 13 to the consolidated financial statements.

FINANCIAL CONDITION

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

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

Given the likely availability of a number of liquidity options discussed herein, including borrowing capacity under our unsecured committed line of credit (2012 CLOC), we believe that in the absence of any unexpected developments, our existing sources of capital at January 31, 2013 are sufficient to meet our operating needs. See discussions in Item 1, note 7 to the consolidated financial statements for details of our 2012 CLOC and in Regulatory Environment below for details of pending regulatory changes.

OPERATING ACTIVITIES Cash used in operations totaled $1.3 billion for the nine months ended January 31, 2013, compared with $1.4 billion for the same period last year. This decrease is due to lower tax payments and operating losses in the current year, partially offset by the payment of previously accrued legal settlements.

Restricted Cash. We hold certain cash balances that are restricted as to use. Cash and cash equivalents restricted totaled $38.0 million at January 31, 2013, and primarily consisted of cash held by our captive insurance subsidiary that will be used to pay claims and cash held by HRB Bank required for regulatory compliance.

INVESTING ACTIVITIES Cash used in investing activities totaled $180.3 million for the current period, compared to cash provided of $323.5 million in the same period last year.

Available-for-Sale Securities. During the nine months ended January 31, 2013, HRB Bank purchased $108.4 million in mortgage-backed securities, compared to $178.0 million in the prior year. Additionally, we received payments as a result of sales or maturing AFS securities of $86.8 million during the nine months ended January 31, 2013 compared to $40.5 million in the prior year.

Mortgage Loans Held for Investment. We received net proceeds of $31.2 million and $35.5 million on our mortgage loans held for investment for the first nine months of fiscal years 2013 and 2012, respectively.

Purchases of Property and Equipment. Total cash paid for property and equipment was $96.1 million and $71.5 million for the nine months ended January 31, 2013 and 2012, respectively. This increase was primarily a result of upgrades to our tax offices.

Acquisitions of Businesses and Intangibles. Total cash paid for acquisitions was $20.7 million and $16.0 million during the nine months ended January 31, 2013 and 2012, respectively.

Sales of Businesses. We had no significant sales during the nine months ended January 31, 2013. Proceeds from the sales of businesses totaled $533.1 million for the nine months ended January 31, 2012, which included proceeds from the sale of RSM and an ancillary business. We also sold 83 tax offices in fiscal year 2012. The majority of these sales were financed through affiliate loans.

Loans Made to Franchisees. Loans made to franchisees totaled $68.9 million and $43.6 million for the nine months ended January 31, 2013 and 2012, respectively.

FINANCING ACTIVITIES Cash used in financing activities totaled $33.3 million for the nine months ended January 31, 2013, compared to cash provided of $603.8 million in the same period last year, primarily due to the lower customer deposit balances and larger share repurchases in the current year.

Short-Term Borrowings. We had commercial paper borrowings of $425.0 million and $230.9 million at January 31, 2013 and 2012, respectively. These borrowings were used to fund our off-season losses and cover our seasonal working capital needs.

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

On November 26, 2012 we redeemed our $600.0 million Senior Notes due in January 2013 at a price of $623.0 million. Proceeds of the $500.0 million Senior Notes and other cash balances were used to repay the $600.0 million Senior Notes.

Customer Banking Deposits. Customer banking deposits increased $208.8 million for the nine months ended January 31, 2013 compared to $735.3 million in the prior year. In the current fiscal year, the delayed start to the tax season shifted many of the deposits we receive on Emerald Cards into February.

Dividends. We have consistently paid quarterly dividends. Dividends paid totaled $162.7 million and $150.1 million for the nine months ended January 31, 2013 and 2012, respectively. The increase from the prior year is due to an increase in the quarterly dividend to $0.20 per share compared to $0.15 per share in the prior year, partially offset by a reduction in the number of shares outstanding.

Repurchase and Retirement of Common Stock. We purchased and immediately retired 21.3 million shares of our common stock at a cost of $315.0 million during the nine months ended January 31, 2013. We also paid cash totaling $22.5 million related to 1.5 million shares that had not yet settled and was accrued as of April 30, 2012. During the nine months ended January 31, 2012, we purchased and immediately retired 13.0 million shares of our common stock at a cost of $177.5 million.

In June 2012, our Board of Directors extended the authorization to purchase up to $2.0 billion of our common stock through June 2015. There was $857.5 million remaining under this authorization at January 31, 2013.

HRB BANK At January 31, 2013, HRB Bank had cash balances of $291.2 million, compared to $513.5 million at April 30, 2012. Distribution of that cash balance would be subject to regulatory approval and it is therefore not available for general corporate purposes.

Block Financial LLC (Block Financial) has historically made capital contributions to HRB Bank to help meet its capital requirements. Block Financial made capital contributions to HRB Bank of $400.0 million during fiscal year 2012. No such contributions were made during the nine months ended January 31, 2013.

ASSETS HELD BY FOREIGN SUBSIDIARIES At January 31, 2013, cash and short-term investment balances of $38.5 million were held by our foreign subsidiaries. These funds would have to be repatriated to be available to fund domestic operations, and income taxes would be accrued and paid on those amounts. During the current period, a Canadian subsidiary purchased an intangible asset from a U.S. subsidiary and an Australian subsidiary paid a dividend to its U.S. parent. These transactions effectively brought $72.5 million to the U.S. from our foreign subsidiaries.

During previous fiscal years, we used foreign exchange forward contracts to mitigate foreign currency exchange rate risk as we funded our Canadian operations. We do not currently expect to enter into any similar contracts.

BORROWINGS

The following chart provides the debt ratings for Block Financial as of January 31, 2013:

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

Other than the items discussed in Item 1, notes 7 and 11 to the consolidated financial statements, there have been no other material changes in our borrowings from those reported at April 30, 2012 in our Annual Report on Form 10-K.

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

Other than the items discussed in Item 1, notes 7 and 11 to the consolidated financial statements, there have been no other material changes in our contractual obligations and commercial commitments from those reported at April 30, 2012 in our Annual Report on Form 10-K.

REGULATORY ENVIRONMENT

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

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

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

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

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

NON-GAAP FINANCIAL INFORMATION

Non-GAAP financial measures should not be considered as a substitute for, or superior to, measures of financial performance prepared in accordance with accounting principles generally accepted in the United States (GAAP). Because these measures are not measures of financial performance under GAAP and are susceptible to varying calculations, they may not be comparable to similarly titled measures in other companies.

We consider non-GAAP financial measures to be a useful metric for management and investors to evaluate and compare the ongoing operating performance of our business on a consistent basis across reporting periods, as it eliminates the effect of items that are not indicative of the our core operating performance.

The following are descriptions of adjustments we make for our non-GAAP financial measures:

- We exclude from our non-GAAP financial measures litigation charges we incur and favorable reserve adjustments. This does not include normal legal defense costs.
- We exclude from our non-GAAP financial measures non-cash charges to adjust the carrying values of goodwill, intangible assets, other long-lived assets and investments to their estimated fair values.
- We exclude from our non-GAAP financial measures severance and other restructuring charges in connection with the termination of personnel, closure of facilities and related costs.
- We exclude from our non-GAAP financial measures the gains and losses on business dispositions, including investment banking, legal and accounting fees.
- We exclude from our non-GAAP financial measures the effects of discrete income tax reserve and related adjustments recorded in a specific quarter.

We may consider whether other significant items that arise in the future should also be excluded from our non-GAAP financial measures.

We measure the performance of our business using a variety of metrics, including EBITDA, adjusted EBITDA and adjusted pretax income of continuing operations. We also use EBITDA and pretax income of continuing operations as factors in incentive compensation calculations for our employees. Adjusted EBITDA and adjusted pretax income eliminate the impact of items that we do not consider indicative of our core operating performance and, we believe, provide meaningful information to assist in understanding our financial results, analyzing trends in our underlying business, and assessing our prospects for future performance.

The following is a reconciliation of our non-GAAP financial measures:

(in 000s)

EBITDA and Adjusted EBITDA	Three months ended January 31, 2013	Three months ended January 31, 2012	Nine months ended January 31, 2013	Nine months ended January 31, 2012
EBITDA:				
Net loss from continuing operations reported	$ (16,915)	$ (3,567)	$ (223,764)	$ (245,735)
Add back:				
Income taxes	(79,353)	2,541	(204,061)	(159,821)
Interest expense	19,428	23,543	64,895	69,352
Depreciation and amortization	24,638	22,506	67,242	66,127
	(35,287)	48,590	(71,924)	(24,342)
EBITDA from continuing operations	(52,202)	45,023	(295,688)	(270,077)
Adjustments:				
Loss contingencies litigation charges	(190)	4,171	(4,943)	27,528
Impairment of goodwill and intangible assets			1,421	8,237
Severance	(582)	(190)	475	1,920

Loss (gain) on sales of tax offices	(352)	229	(876)	1,141
	(1,124)	4,210	(3,923)	38,826
Adjusted EBITDA from continuing operations	$ (53,326)	$ 49,233	$ (299,611)	$ (231,251)

Adjusted Pretax Results	Three months ended January 31, 2013	Three months ended January 31, 2012	Nine months ended January 31, 2013	Nine months ended January 31, 2012
				(in 000s)
Non-GAAP Pretax Results:				
Pretax loss from continuing operations reported	$ (96,268)	$ (1,026)	$ (427,825)	$ (405,556)
Adjustments:				
Loss contingencies litigation charges	(190)	4,171	(4,943)	27,528
Impairment of goodwill and intangible assets			1,421	8,237
Severance	(582)	(190)	475	1,920
Loss (gain) on sales of tax offices	(352)	229	(876)	1,141
	(1,124)	4,210	(3,923)	38,826
Pretax income (loss) from continuing operations adjusted	$ (97,392)	$ 3,184	$ (431,748)	$ (366,730)

FORWARD-LOOKING INFORMATION

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

During previous fiscal years, we used foreign exchange forward contracts to mitigate foreign currency exchange rate risk as we funded our Canadian operations. We do not currently expect to enter into any similar contracts.

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

ITEM 4. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

As of the end of the period covered by this Form 10-Q, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)). The controls evaluation was done under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of the end of the period covered by this Quarterly Report on Form 10-Q.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

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

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

For a description of our material pending legal proceedings, see discussion in Part I, Item 1, note 12 to the consolidated financial statements.

ITEM 1A. RISK FACTORS

Other than the risk factors discussed below, there have been no material changes in our risk factors from those reported at April 30, 2012 in our Annual Report on Form 10-K.

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

and the profitability of those offerings could be adversely impacted.

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

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

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

This guidance would require our Holding Companies to retain significant additional capital, even though HRB Bank has regulatory capital substantially above the well capitalized level. At this time, we do not foresee regulatory flexibility in this regard in light of the Federal Reserve s views of the statutory requirements

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

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

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

We face substantial litigation in connection with our various business activities, and such litigation may damage our reputation, impair our product offerings or result in material liabilities and losses.

We, and/or our subsidiaries, have been named and from time to time will likely continue to be named, as a defendant in various legal actions, including arbitrations, class actions, actions or inquiries by state attorneys general, and other litigation arising in connection with our various business activities. Adverse outcomes related to litigation could result in substantial damages and could cause our earnings to decline. Negative public opinion could also result from our subsidiaries actual or alleged conduct in such claims, possibly damaging our reputation, which, in turn, could adversely affect our business prospects and cause the market price of our stock to decline.

In addition, a state appellate court issued a ruling, which is subject to a pending request for additional appellate review, that a competitor s deferral of tax preparation fees in connection with its refund transfer product was an extension of credit requiring truth in lending disclosures. We believe there are factual and legal differences that distinguish us and our RAC product and, as such, that we are not bound by the court s decision. However, any requirement that materially alters our offering of RACs could have a material adverse impact on our business, results of operations and financial condition.

We rely on a single vendor or a limited number of vendors to provide certain key products or services, and the inability of these key vendors to meet our needs could have a material adverse effect on our business, results of operations and financial condition.

Historically we have contracted, and in the future will continue to contract, with a single vendor or a limited number of vendors to provide support for our tax, financial and other products and services. As with any vendor we utilize, we are vulnerable to vendor error, service inefficiencies, service interruptions or service delays; however, our sensitivity to any of these issues is heightened (1) due to the seasonality of our business, and (2) with respect to any vendor that we utilize for the provision of any such product or service that has specialized expertise, is a sole provider, or whose indemnification obligations are limited. If such a vendor is unable to meet our needs in a timely manner or if the products or services provided by such a vendor are terminated or otherwise delayed because the vendor fails to perform adequately, is no longer in business, experiences shortages, or discontinues a certain product or service that we utilize, or if we are not able to develop alternative sources for these products and services quickly and cost-effectively, it could result in a material and adverse impact on our business, results of operations and financial condition.

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

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

(in 000s, except per share amounts)

	Total Number of Shares Purchased [1]	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs [2]	Maximum $ Value of Shares that May Be Purchased Under the Plans or Programs
November 1 November 30	1	$ 18.05		$ 857,504
December 1 December 31	19	$ 18.59		$ 857,504
January 1 January 31		$		$ 857,504

[1] Total shares of 20 thousand were purchased in connection with the funding of employee income tax withholding obligations arising upon the exercise of stock options or the lapse of restrictions on nonvested shares.
[2] In June 2012, our Board of Directors extended the authorization to purchase up to $2.0 billion of our common stock through June 2015.

ITEM 5. OTHER INFORMATION

(a) The following information is provided in accordance with Item 1.01 of Form 8-K (Entry into a Material Definitive Agreement):

Indemnification Agreement Additional Indemnitees. As previously disclosed in the Company s Quarterly Report on Form 10-Q for the quarter ended January 31, 2012, file number 1-6089, filed on March 7, 2012 (the March 2012 Form 10-Q), the Board of Directors of the Company approved a form of indemnification agreement (the Indemnification Agreement) to be entered into by the Company and certain of its directors and officers (each, an Indemnitee). On March 6, 2013, pursuant to approval by the Board of Directors of the Company, the Company entered into an Indemnification Agreement with the following additional Indemnitees:

Gregory J. Macfarlane, Chief Financial Officer
Delos Kip Knight, President, International

The description of the Indemnification Agreement as set forth in the March 2012 Form 10-Q, and the form of Indemnification Agreement filed as Exhibit 10.2 to the March 2012 Form 10-Q, are incorporated herein by reference.

(b) The following information is provided in accordance with Item 5.02(e) of Form 8-K (Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers):

Amendment to 2013 Long Term Incentive Plan. Effective March 6, 2013, we amended and restated our 2013 Long Term Incentive Plan (the LTI Plan) to amend Sections 4.2 and 13.5 to permit our Compensation Committee to delegate its authority under the LTI Plan (including the authority to sub-delegate) to (i) except with respect to officers who are designated as executive officers by the Company s Board of Directors under Section 16 of the Securities Act of 1934, determine whether a violation of a restrictive covenant under the LTI Plan occurred, and (ii) if a violation occurred, to demand payment of value already realized under an award and/or cancel or suspend the award in the event of such a violation. A copy of the LTI Plan, as amended and restated, is attached as Exhibit 10.1 hereto and incorporated herein by reference.

Forms of Award Agreement. On March 6, 2013, the Company s Board of Directors adopted new forms of award agreement, based on the recommendation of its Compensation Committee, for long term incentive awards of restricted share units and non-qualified stock options pursuant to the LTI Plan. The award agreements include, among other provisions, termination, change in control, restrictive covenants, and clawback provisions. Copies of the forms of award agreement for restricted share units and non-qualified stock options are filed as Exhibits 10.2 and 10.3, respectively, herewith.

ITEM 6. EXHIBITS

10.1 *	2013 Long Term Incentive Plan, as amended and restated on March 6, 2013.
10.2 *	Form of 2013 Long Term Incentive Plan Award Agreement for Restricted Share Units, as approved on March 6, 2013.
10.3 *	Form of 2013 Long Term Incentive Plan Award Agreement for Non-Qualified Stock Options, as approved on March 6, 2013.
10.4 *	H&R Block Severance Plan, as amended and restated on January 1, 2013.
10.5 *	Letter Agreement between the Company, H&R Block Management, LLC and William C. Cobb, effective January 3, 2013.
31.1	Certification by Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification by Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification by Chief Executive Officer furnished pursuant to 18 U.S.C. 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification by Chief Financial Officer furnished pursuant to 18 U.S.C. 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Extension Calculation Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase
101.REF	XBRL Taxonomy Extension Reference Linkbase

* Indicates management contracts, compensatory plans or arrangements.

SIGNATURES

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

H&R BLOCK, INC.

William C. Cobb
President and Chief Executive Officer
March 7, 2013

Gregory J. Macfarlane
Chief Financial Officer
March 7, 2013

Jeffrey T. Brown
Chief Accounting and Risk Officer
March 7, 2013