

H&R BLOCK INC  
Form 10-K  
June 26, 2013  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-K  
(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended April 30, 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)

Securities registered pursuant to Section 12(b) of the Act:

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

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, without par value

(Title of Class)

Indicate by check mark whether the registrant is a well-known seasoned issuer as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes  No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

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company” in Rule 12b-2 of the Exchange Act.

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

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

The aggregate market value of the registrant’s Common Stock (all voting stock) held by non-affiliates of the registrant, computed by reference to the price at which the stock was sold on October 31, 2012, was \$4,807,662,137.

Number of shares of the registrant’s Common Stock, without par value, outstanding on May 31, 2013: 272,700,967.

Documents incorporated by reference

The definitive proxy statement for the registrant’s Annual Meeting of Shareholders, to be held September 12, 2013, is incorporated by reference in Part III to the extent described therein.

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**INTRODUCTION AND FORWARD-LOOKING STATEMENTS**

Specified portions of our proxy statement are “incorporated by reference” in response to certain items. Our proxy statement will be made available to shareholders in July 2013, and will also be available on our website at [www.hrblock.com](http://www.hrblock.com).

This report and other documents filed with the Securities and Exchange Commission (SEC) may contain forward-looking statements. In addition, our senior management may make forward-looking statements orally to analysts, investors, the media and others. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. They often include words or variation of words such as “expects,” “anticipates,” “intends,” “plans,” “believes,” “seeks,” “estimates,” “projects,” “forecasts,” “targets,” “would,” “will,” “should,” “could,” “may” and 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, stock repurchase, liquidity, capital structure or other financial items, descriptions of management's plans or objectives for future operations, services or products, 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. Investors should understand that it is not possible to predict or identify all such factors and, consequently, should not consider any such list to be a complete set of all potential risks or uncertainties. Details about risks affecting various aspects of our business are included throughout this Form 10-K. Investors should carefully consider all of these risks, and should pay particular attention to Item 1A, “Risk Factors,” of this Form 10-K.

**PART I**

**ITEM 1.**

**BUSINESS**

**GENERAL DEVELOPMENT OF BUSINESS**

H&R Block, Inc. was organized as a corporation in 1955 under the laws of the State of Missouri and has subsidiaries that provide tax preparation and banking services. “H&R Block,” “the Company,” “we,” “our” and “us” are used interchangeably to refer to H&R Block, Inc. or to H&R Block, Inc. and its subsidiaries, as appropriate to the context. A complete list of our subsidiaries can be found in Exhibit 21.

Our Tax Services segment provides assisted income tax return preparation, digital tax solutions and other services and products related to income tax return preparation to the general public primarily in the United States (U.S.) and its territories, Canada and Australia. This segment also offers financial services through H&R Block Bank (HRB Bank). In addition to our Tax Services segment, we separately report the results of corporate operations which 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, other corporate expenses and eliminations of intercompany activities.

Through ownership of HRB Bank, we are a savings and loan holding company (SLHC) regulated by the Board of Governors of the Federal Reserve System (Federal Reserve). As previously announced, 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 services to our customers. Our evaluation of alternatives is ongoing and we cannot predict the timing, the circumstances, or the likelihood that we will cease to be regulated as an SLHC.

**FINANCIAL INFORMATION ABOUT INDUSTRY SEGMENTS**

See discussion below and in Item 8, note 22 to the consolidated financial statements.



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DESCRIPTION OF BUSINESS

TAX SERVICES

**GENERAL** – We provide tax return preparation and related services and products to the general public primarily in the U.S. and its territories, Canada, and Australia. Major revenue sources include fees earned for tax preparation and related services performed at company-owned retail tax offices, royalties from franchisees, sales of tax preparation software, online tax preparation fees and fees from complementary services. HRB Bank also offers traditional banking services including checking and savings accounts, individual retirement accounts and certificates of deposit.

**Tax Returns Prepared.** During fiscal year 2013, 25.4 million tax returns were prepared by and through H&R Block worldwide, compared to 25.6 million in 2012 and 24.5 million in 2011. In the U.S., 22.2 million tax returns were prepared by and through H&R Block during fiscal year 2013, compared to 22.3 million in 2012 and 21.4 million in 2011. Our U.S. tax returns prepared during the 2013 tax season, including those prepared by our franchisees and those prepared and filed at no charge, constituted approximately 16% of an Internal Revenue Service (IRS) estimate of total individual income tax returns filed during the fiscal year 2013 tax season. See Item 7 for further discussion of changes in the number of tax returns prepared.

**ASSISTED** – Assisted income tax return preparation and related services are provided by tax professionals via a system of retail offices operated directly by us or by franchisees.

**Franchises.** We offer franchises as a way to expand our presence in certain markets. Our franchise arrangements provide us with certain rights designed to protect our brand. Most of our franchisees receive, among other things, the right to use our trademark and software, access to product offerings and expertise, signs, specialized forms, advertising and initial training and supervisory services. Our franchisees pay us a percentage of approximately 30% of gross tax return preparation and related service revenues as a franchise royalty in the U.S.

During fiscal years 2013, 2012 and 2011, we sold certain company-owned offices to existing franchisees for sales proceeds totaling \$3.8 million, \$17.3 million and \$65.6 million, respectively. The net gain on these transactions totaled \$1.3 million, \$16.6 million and \$45.1 million in fiscal years 2013, 2012 and 2011, respectively. The majority of these sales are financed through loans made by one of our consolidated subsidiaries.

From time to time, we have acquired the assets of existing franchisees and other tax return preparation businesses, and may continue to do so if future conditions warrant and satisfactory terms can be negotiated.

**Offices.** During the 2013 tax season, we operated in 10,718 offices across the U.S. at the peak of the tax season. A summary of our company-owned and franchise offices is included in Item 7, under “Tax Services – Operating Statistics.” We sold nine, 83 and 280 company-owned offices to franchisees in fiscal years 2013, 2012 and 2011, respectively.

Offices in shared locations at April 30, 2013 consist primarily of offices in Walmart stores. The U.S. Walmart license agreement, which covered approximately 450 offices, expired as of April 30, 2013, and was not renewed. In previous years, we had a similar license agreement with Sears, but this agreement expired in July 2012 and was not renewed.

**DO-IT-YOURSELF** – In addition to our retail offices, we offer a number of digital do-it-yourself (DIY) tax preparation alternatives. By offering professional assisted and DIY tax preparation options through multiple channels, we seek to serve our clients in the manner they choose to be served.

**Online Tax Services.** We offer a comprehensive range of online tax services, from tax advice to complete professional and DIY tax return preparation and electronic filing, through our website at [www.hrblock.com](http://www.hrblock.com). Services available at this website allow clients to prepare their federal and state income tax returns using the H&R Block At Home® Online Tax Program, access tax tips, advice and tax-related news, and use calculators for tax planning. We participate in the Free File Alliance (FFA). This alliance was created by the tax return preparation industry and the IRS, and allows qualified filers with an adjusted gross income of \$57,000 or less to prepare and file their federal return online at no charge. We believe this program provides a valuable public service and increases our visibility with new clients, while also providing an opportunity to offer our state tax return preparation services to these clients.

**Software.** We develop and market H&R Block At Home® income tax preparation software. H&R Block At Home® offers a simple step-by-step tax preparation interview, data imports from money management software, calculations, completion of the appropriate tax forms, error checking and electronic filing. Our software may be purchased online, through third-party retail stores or via direct mail.

Mobile Applications. We develop and offer applications for mobile devices which provide tax and related services to clients, including online tax preparation and tools that complement our tax preparation software.

OTHER OFFERINGS – In addition to our tax services, we also offer clients a number of additional services, including refund anticipation checks that include a fee deduction feature (RACs), H&R Block Emerald Advance® lines of credit (EAs), prepaid

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debit cards, our Peace of Mind® (POM) guarantee, credit cards, and, for our Canadian clients, a refund discount (CashBack) program.

Refund Anticipation Checks. RACs allow clients to receive their tax refunds by their chosen method of disbursement and include a feature allowing clients to deduct tax preparation and service fees from their tax refunds. Clients may choose to receive their RAC proceeds by direct deposit to a deposit account, by deposit to their H&R Block Prepaid Emerald MasterCard® or by receiving a check. RACs are available to U.S. clients and are frequently obtained by those who (1) do not have bank accounts into which the IRS can direct deposit their refunds; (2) like the convenience of a temporary account for receipt of their refund; or (3) prefer to have their tax preparation fees paid directly out of their refunds.

H&R Block Emerald Advance® Lines of Credit. EAs are offered to clients in our offices typically from late November through mid-January, currently in an amount not to exceed \$1,000. If the borrower meets certain criteria as agreed in the loan terms, the line of credit can be utilized year-round. Borrowers may choose to pay down balances on EAs with their tax refunds.

H&R Block Prepaid Emerald Mastercard®. The H&R Block Prepaid Emerald MasterCard® allows clients to receive their tax refunds from the IRS directly on a prepaid debit card, or to direct RAC proceeds to the card to avoid check-cashing fees. The card can be used for everyday purchases, bill payments and ATM withdrawals anywhere MasterCard® is accepted. Additional funds can be added to the card account year-round through direct deposit or at participating retail locations.

Peace of Mind® Guarantee. In addition to our standard guarantee, we offer our POM guarantee to U.S. clients, whereby we (1) represent our clients if they are audited by the IRS, and (2) assume the cost, subject to certain limits, of additional taxes owed by a client resulting from errors attributable to H&R Block. The POM guarantee has a cumulative limit of \$5,500 in additional taxes assessed with respect to the federal, state and local tax returns we prepared for applicable clients during the taxable year covered by the guarantee.

Credit Cards. In fiscal year 2013, 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.

CashBack Refund Discount Program. During the tax season, our Canadian operations advance refunds due to certain clients from the Canada Revenue Agency (CRA), for a fee. The fee charged for this service is mandated by the CRA. The client assigns to us the full amount of the tax refund to be issued by the CRA and the refund amount is then sent by the CRA directly to us. The number of returns discounted under the CashBack program in fiscal year 2013 was 620,000, compared to 724,000 in 2012 and 821,000 in 2011.

SEASONALITY OF BUSINESS – Because most of our clients file their tax returns during the period from January through April of each year, substantially all of our revenues from income tax return preparation and related services and products are earned during this period. As a result, we generally operate at a loss through the first eight months of the fiscal year.

HRB Bank's operating results are subject to seasonal fluctuations primarily related to the offering of the H&R Block Prepaid Emerald MasterCard®, EAs and RACs, and therefore peak in January and February and taper off through the remainder of the tax season.

COMPETITIVE CONDITIONS – We provide both assisted and DIY tax preparation services and products and face substantial competition in and across each category. There are a substantial number of tax return preparation firms and accounting firms offering tax return preparation services, and we face significant competition from independent tax preparers and certified public accountants. Certain firms are involved in providing electronic filing services and RACs or similar services to the public. Commercial tax return preparers and electronic filers are highly competitive with regard to price and service, and many firms offer services that may include preparation of tax returns at no charge. Our assisted tax preparation business also faces competition from firms offering DIY tax preparation services and products. In terms of the number of offices and personal tax returns prepared and electronically filed in offices, online and via our software, we are one of the largest single providers of tax return preparation solutions and electronic filing services in the U.S. We also believe we operate the largest tax return preparation businesses in Canada and Australia.



Our DIY tax preparation options include various forms of digital electronic assistance, including online, mobile and desktop software. Many other companies offer digital and online tax preparation services, including Intuit, Inc., our largest competitor offering such services. Like all tax return preparation services and products, price and marketing competition for digital tax preparation services is intense among value and premium products and many firms offer digital services and products at no charge. Our digital tax solutions services and products also compete with in-office tax preparation services. U.S. federal and certain state and foreign taxing authorities also currently offer, or facilitate the offering of, tax return preparation and filing options to taxpayers at no charge.

HRB Bank provides banking services primarily to our assisted and DIY tax clients and for many of these clients, HRB Bank is their only provider of banking services. HRB Bank does not seek to compete broadly with regional or national retail banks.

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GOVERNMENT REGULATION – TAX PREPARERS – Our tax preparation business is subject to various forms of government regulation, including the following:

**U.S. Federal Tax Preparer Regulations.** U.S. federal legislation requires income tax return preparers to, among other things, set forth their signatures and identification numbers, including their Preparer Tax Identification Number (PTIN), on all tax returns prepared by them and retain all tax returns prepared by them for three years. U.S. federal laws also subject income tax return preparers to accuracy-related penalties in connection with the preparation of income tax returns. Preparers may be prohibited from continuing to act as income tax return preparers if they continuously and repeatedly engage in specified misconduct.

The U.S. federal government regulates the electronic filing of income tax returns in part by requiring electronic filers to comply with all publications and notices of the IRS applicable to electronic filing. We are required to provide certain electronic filing information to taxpayers and comply with advertising standards for electronic filers. We are also subject to possible monitoring by the IRS, and if deemed appropriate, the IRS could impose various penalties, including penalties for improper disclosure or use of taxpayer information, other preparer penalties or suspension from the IRS electronic filing program.

IRS regulations require all tax return preparers to use a PTIN as their identifying number on U.S. federal tax returns filed after December 31, 2010. On January 18, 2013, the Federal District Court for the District of Columbia enjoined the IRS from enforcing the recently implemented regulations requiring paid tax return preparers to be authorized to practice before the IRS as a prerequisite to obtaining or renewing a PTIN. Under the enjoined regulations, the IRS would be permitted to conduct tax compliance checks on tax return preparers, has defined the individuals who are considered “tax return preparers” for the PTIN requirement, and charge a PTIN user registration fee of \$64.25 per year for new registrations and \$63.00 per year for renewals. The IRS would also be permitted to conduct background checks on PTIN applicants. The decision of the Federal District Court has been appealed by the IRS.

**Financial Privacy Regulations.** The Gramm-Leach-Bliley Act and related Consumer Financial Protection Bureau (CFPB) and Federal Trade Commission (FTC) regulations require income tax preparers to (1) adopt and disclose consumer privacy notices, (2) provide consumers a reasonable opportunity to control (via “opt-out”) whether their nonpublic personal information is disclosed to unaffiliated third-parties (subject to certain exceptions), and (3) implement reasonable safeguards to protect the security and confidentiality of nonpublic personal information. In addition, the IRS generally prohibits the use or disclosure of taxpayer information by tax return preparers for purposes other than tax return preparation without the prior written consent of the taxpayer.

**State Regulations.** Certain states have privacy laws and regulations similar to the U.S. federal regulations described above. Most states also have data security breach notice laws requiring notice be provided to impacted individuals and others if there is unauthorized access to certain nonpublic personal information. Certain states have regulations and requirements relating to offering income tax courses. These requirements include licensing, bonding and certain restrictions on advertising.

**Franchise Regulations.** Many of the income tax return preparation offices operating in the U.S. under the name “H&R Block” are operated by franchisees. Our franchising activities are subject to the rules and regulations of the FTC, potential enforcement by the CFPB, and various state laws regulating the offer and sale of franchises. The FTC and various state laws require us to furnish to prospective franchisees a franchise disclosure document containing certain prescribed information. A number of states in which we are currently franchising regulate the sale of franchises and require registration of the franchise disclosure document with certain state authorities. We are currently operating under exemptions from registration in several of these states based on our net worth and experience. Substantive state laws regulating the franchisor/franchisee relationship presently exist in a large number of states, and bills have been introduced in Congress from time to time that would provide for federal regulation of the franchisor/franchisee relationship in certain respects. The state laws often limit, among other things, the duration and scope of non-competition provisions, the ability of a franchisor to terminate or refuse to renew a franchise and the ability of a franchisor to designate sources of supply. From time to time, we may make appropriate amendments to our franchise disclosure document to comply with our disclosure obligations under U.S. federal and state laws.

**Foreign Regulations.** We are also subject to a variety of other regulations in various foreign markets, including anti-corruption laws and regulations. Foreign regulations and laws potentially affecting our business are evolving

rapidly. We rely on external counsel in the countries in which we do business to advise us regarding compliance with applicable laws and regulations. As our international operations grow, we continue to develop and enhance our internal legal and operational compliance programs that guide our businesses in complying with laws and regulations applicable in the countries in which we do business.

**REGULATION AND SUPERVISION – BANK AND HOLDING COMPANIES** – Our indirect subsidiary, HRB Bank, is a federal savings bank chartered under the Home Owner's Loan Act, as amended (HOLA). H&R Block, Inc., H&R Block Group, Inc. and Block Financial LLC (our Holding Companies) are SLHCs because they control HRB Bank. The following is a general description of certain U.S. federal banking statutes and regulations that apply to HRB Bank and our Holding Companies.

The Dodd-Frank Act. The Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) was signed into law on July 21, 2010. This federal statute made extensive changes to the laws regulating federal savings banks, their holding companies and other financial services companies. The Dodd-Frank Act requires various federal agencies to adopt many new

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implementing rules and regulations. The federal agencies are given significant discretion in drafting the new rules and regulations; consequently, many of the details and much of the impact of the Dodd-Frank Act will not be known for several years.

The Dodd-Frank Act substantially restructured the regulation of federal savings associations and savings and loan holding companies. The Office of Thrift Supervision (OTS), which previously was the primary federal regulator for both HRB Bank and our Holding Companies, was eliminated. On July 21, 2011, the OTS transferred its regulatory authority to the Office of the Comptroller of the Currency (OCC) and the Federal Reserve. On that date, the OCC, the primary federal regulator for national banks, became the primary federal regulator for federal savings banks, including HRB Bank, and the Federal Reserve became the primary federal regulator for all SLHCs and their nonbank subsidiaries, including our Holding Companies and their nonbank subsidiaries.

The Dodd-Frank Act further limited the activities of SLHCs and their nonbank subsidiaries. The OTS had authorized SLHCs and their nonbank subsidiaries to engage in the broadest range of financial activities that could be engaged in by a bank holding company that has elected to be a financial holding company (FHC). Pursuant to the Dodd-Frank Act, the Federal Reserve has issued a regulation that SLHCs, and their nonbank subsidiaries, may only engage in such financial activities if the SLHCs qualify for and elect to become FHCs. Our Holding Companies have not elected to become FHCs and have no plans to do so.

The Dodd-Frank Act also weakened the federal preemption rules that have been applicable for national banks, federal savings banks and their subsidiaries, and gives state attorneys general the ability to enforce consumer protection laws. Prior to the enactment of the Dodd-Frank Act, OTS regulations provided that the HOLA, and the OTS regulations that interpret the HOLA, preempted the entire field of state regulation in the critical areas of lending and deposit-taking, resulting in federal preemption of most state consumer protection laws in those areas. The Dodd-Frank Act, effective July 21, 2011, changed the legal standard for federal savings association preemption of state laws to a "conflict" preemption standard that is the same as the standard for national bank preemption of state laws. The Dodd-Frank Act also eliminated, effective July 21, 2012, federal preemption for subsidiaries and affiliates of national banks and federal savings banks. As a result, state statutes and regulations that were previously not applicable to our nonbank subsidiaries are no longer preempted.

The Dodd-Frank Act also imposes consolidated capital requirements on SLHCs. These requirements may have a significant long term effect on our Holding Companies and, as a result, we are in the process of evaluating alternative means of ceasing to be an SLHC. 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.

Regulatory Supervision and Enforcement Authority. The OCC has extensive supervision and enforcement authority over all federal savings associations, including HRB Bank, and the Federal Reserve has extensive supervision and enforcement authority over all SLHCs, including our Holding Companies. Enforcement authority includes, among other things, the ability to assess civil money penalties, to issue cease-and-desist and removal orders and to initiate injunctive actions. In general, these enforcement actions may be initiated for violations of laws and regulations and unsafe or unsound practices. Public disclosure of final enforcement actions by the OCC or the Federal Reserve is generally required by law.

Regulatory Capital Requirements. OCC regulations require HRB Bank to maintain specified minimum levels of regulatory capital. To be well capitalized, a federal savings association must have a leverage ratio of at least 5.0%, a Tier 1 risk-based capital ratio of at least 6.0% and a total risk-based capital ratio of at least 10.0%. To be adequately capitalized, a federal savings association must have a leverage ratio of at least 4.0%, a Tier 1 risk-based capital ratio of at least 4.0% and a total risk-based capital ratio of at least 8.0%. As of March 31, 2013, HRB Bank's most recent Call Report filing with the OCC, HRB Bank was well-capitalized, with a leverage ratio of 25.5%, a Tier 1 risk-based capital ratio of 130.3%, and a total risk-based capital ratio of 131.6%.

On August 30, 2012, the OCC, FDIC and Federal Reserve issued in the Federal Register a joint notice of proposed rulemaking that would increase the capital requirements for federal savings banks, including HRB Bank. See below under "New SLHC Regulatory Capital Requirements" for further information on the OCC's proposed capital requirements. The OCC has not issued final capital regulations and it is unclear when it will do so and when the new

capital regulations will become effective.

The OCC is authorized to take certain enforcement actions against federal savings banks that fail to meet the minimum ratios for an adequately capitalized institution and to impose other restrictions on federal savings banks that are less than adequately capitalized.

Limitations on Dividends and Other Capital Distributions. OCC regulations impose various restrictions on federal savings banks with respect to their ability to make distributions of capital, which include dividends, stock redemptions or repurchases and other transactions charged to the capital account.

Under OCC regulations, federal savings banks, such as HRB Bank, may generally make capital distributions during any calendar year equal to net income of the bank for the previous two calendar years, net of prior dividends paid by the bank, and current year-to-date net income. OCC regulations generally require that federal savings banks remain adequately capitalized before and after the proposed distribution. A federal savings bank proposing to make any capital distribution greater than these limits must obtain

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OCC approval prior to making such distributions. Because of the seasonal nature of our business and wide fluctuations in the level of HRB Bank's assets, our Holding Companies regularly make capital contributions to HRB Bank, and HRB Bank regularly seeks regulatory approval to repay such capital contributions as extraordinary dividends.

Consumer Protection Laws. In connection with its lending activities, HRB Bank is subject to federal laws designed to protect borrowers and promote lending, including the Equal Credit Opportunity Act, the Truth-in-Lending Act, the Home Mortgage Disclosure Act, the Real Estate Settlement Procedures Act, and the Community Reinvestment Act (CR Act). In addition, federal banking regulations limit the ability of banks and other financial institutions to disclose nonpublic personal information to unaffiliated third parties. The CR Act requires the OCC to assess HRB Bank's record in meeting the credit needs of the communities served by HRB Bank, including low and moderate income neighborhoods. Under the CR Act, institutions are assigned a rating of outstanding, satisfactory, needs to improve, or substantial non-compliance. HRB Bank received a "satisfactory" rating in its most recent CR Act evaluation.

Bank Secrecy Act/Anti-Money Laundering Laws. HRB Bank is subject to the Bank Secrecy Act and other anti-money laundering laws and regulations, including the USA PATRIOT Act of 2001. These laws and regulations require HRB Bank to implement policies, procedures, and controls to detect, prevent, and report money laundering and terrorist financing, and to verify the identity of its customers. Violations of these requirements can result in substantial civil and criminal sanctions.

Qualified Thrift Lender Test. As a federal savings bank, HRB Bank is required to meet the Qualified Thrift Lender (QTL) test. This test requires HRB Bank to have at least 65% of its portfolio assets in qualified thrift investments on a monthly average for nine out of every 12 months on a rolling basis. As an alternative, HRB Bank may maintain 60% of its assets in those assets specified in Section 7701(a)(19) of the Internal Revenue Code. Under either test, HRB Bank is required to maintain a significant portion of its assets in residential housing related loans and investments. Any institution that fails to meet the QTL test is immediately subject to certain restrictions on its operations, unless it requalifies as a QTL. These restrictions also include limitations on paying any dividends. Failure to meet the QTL test is a statutory violation subject to enforcement action. As of April 30, 2013 and 2012, HRB Bank met the QTL test.

Insurance of Accounts. HRB Bank is subject to certain regulations issued by the Federal Deposit Insurance Corporation (FDIC), which insures the deposits of HRB Bank to the maximum extent permitted by law. This regulation of HRB Bank is intended for the protection of its depositors and loan customers.

The FDIC insures HRB Bank's deposit accounts. The FDIC assesses deposit insurance premiums on each FDIC-insured institution based on its capital, supervisory ratings, and other factors. As required by the Dodd-Frank Act, the FDIC adopted rules effective April 1, 2011, under which insurance premium assessments are based on an institution's total assets minus its tangible equity instead of its deposits.

Transactions with Affiliates. Transactions between HRB Bank and its affiliates are required to be on terms at least as favorable to HRB Bank as transactions with non-affiliates, and certain covered transactions are restricted to a percentage of HRB Bank's capital.

Federal Home Loan Bank System. HRB Bank is a member of the Federal Home Loan Bank of Des Moines (FHLB), which serves as a reserve or central bank for its members and makes loans or advances to its members. As of April 30, 2013 and 2012, HRB Bank had no outstanding advances from the FHLB.

Federal Reserve Regulation of SLHCs. Each of our Holding Companies is a savings and loan holding company within the meaning of the HOLA. As such, they are registered as unitary savings and loan holding companies with the Federal Reserve and are subject to Federal Reserve regulations, examinations, supervision and reporting requirements. In addition, the Federal Reserve has supervisory and enforcement authority over our Holding Companies and their non-bank subsidiaries. Among other things, this authority permits the Federal Reserve to restrict or prohibit activities that are determined to be a serious risk to HRB Bank. Our Holding Companies are expected to be a source of strength to HRB Bank, able to commit capital and liquidity to the bank during times of economic stress.

New SHLC Regulatory Capital Requirements. The Dodd-Frank Act imposed new regulatory capital requirements for SLHCs. On August 30, 2012, the Federal Reserve published in the Federal Register 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. The OCC and

the FDIC joined the Federal Reserve in requesting comments on new regulatory capital requirements for banks, savings banks and their holding companies. 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 capital determined under accounting principles generally accepted in the United States (GAAP) 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

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shares of our common stock and 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 numerous 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 are in the process of reviewing the comments before publishing final capital requirements.

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. The regulations ultimately applicable to our Holding Companies may be substantially different from the proposed regulations. 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 in 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.

Consumer Financial Protection Bureau. The Dodd-Frank Act created the new CFPB with the power to administer and enforce federal financial consumer protection laws. The CFPB may issue regulations that apply to HRB Bank, and to our non-bank subsidiaries that provide consumer financial services and products. The CFPB may examine, and take enforcement actions against, our non-bank subsidiaries. See Item 1A for further information on the CFPB.

See Item 7, under “Regulatory Environment” and Item 8, note 21 to the consolidated financial statements for additional discussion of regulatory requirements.

### **SERVICE MARKS, TRADEMARKS AND PATENTS**

We have made a practice of selling our services and products under service marks and trademarks and of obtaining protection for these by all available means including, but not limited to, registration of our service marks and trademarks in the U.S. and other countries where our services and products are marketed. We consider these service marks and trademarks, in the aggregate, to be of material importance to our business, particularly our businesses providing services and products under the “H&R Block” brand.

We have no registered patents material to our business.

### **EMPLOYEES**

We had approximately 2,200 regular full-time employees as of April 30, 2013. The highest number of persons we employed during the fiscal year ended April 30, 2013, including seasonal employees, was approximately 80,700.

### **AVAILABILITY OF REPORTS AND OTHER INFORMATION**

Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports filed with or furnished to the SEC are available, free of charge, through our website at [www.hrblock.com](http://www.hrblock.com) as soon as reasonably practicable after such reports are electronically filed with or furnished to the SEC. The public may read and copy any materials we file with the SEC at the SEC’s Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling



the SEC at 1-800-SEC-0330. The SEC maintains a website at [www.sec.gov](http://www.sec.gov) containing reports, proxy and information statements and other information regarding issuers who file electronically with the SEC.

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The following corporate governance documents are posted on our website at [www.hrblock.com](http://www.hrblock.com):

- n The Amended and Restated Articles of Incorporation of H&R Block, Inc.;
- n The Amended and Restated Bylaws of H&R Block, Inc.;
- n The H&R Block, Inc. Corporate Governance Guidelines;
- n The H&R Block, Inc. Code of Business Ethics and Conduct;
- n The H&R Block, Inc. Board of Directors Independence Standards;
- n The H&R Block, Inc. Audit Committee Charter;
- n The H&R Block, Inc. Compensation Committee Charter;
- n The H&R Block, Inc. Finance Committee Charter; and
- n The H&R Block, Inc. Governance and Nominating Committee Charter.

If you would like a printed copy of any of these corporate governance documents, please send your request to the Office of the Secretary, H&R Block, Inc., One H&R Block Way, Kansas City, Missouri 64105.

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

ITEM 1A.

RISK FACTORS

Our business activities expose us to a variety of risks. Identification, monitoring and management of these risks are essential to the success of our operations and the financial soundness of H&R Block. Senior management and the Board of Directors, acting as a whole and through its committees, take an active role in our risk management process and have delegated certain activities related to the oversight of risk management to the Company's Risk Committee, which is comprised of senior managers of major businesses and control functions. The Risk Committee is responsible for identifying and monitoring risk exposures and leading the continued development of our risk management policies and practices.

An investment in our securities involves risk, including the risk that the value of an investment may decline or that returns on that investment may fall below expectations. There are a number of significant factors that could cause actual conditions, events or results to differ materially from those described in forward-looking statements, many of which are beyond management's control or its ability to accurately estimate or predict, or that could adversely affect our financial position, results of operations, cash flows and the value of an investment in our securities.

RISKS RELATING TO CONTINUING OPERATIONS

Increased competition for tax preparation clients could adversely affect our current market share and profitability.

Offers of free tax preparation services could adversely affect our revenues and profitability.

We provide both assisted and DIY tax preparation services and products and face substantial competition throughout our businesses. The assisted tax services category in the tax preparation industry is highly competitive. There are a substantial number of tax return preparation firms and accounting firms offering tax return preparation services. Many tax return preparation firms and many firms not otherwise in the tax return preparation business are involved in providing electronic filing and other related services to the public, and certain firms provide RACs and other similar products. Commercial tax return preparers and electronic filers are highly competitive with regard to price and service. In the DIY category of the tax preparation industry, options include the use of traditional paper forms and various forms of digital electronic assistance, including online, mobile and desktop software, all of which we offer. Our digital tax solutions services and products also compete with in-office tax preparation services and a number of online and software companies, primarily on the basis of price and functionality. Assisted and DIY competitors offer various tax preparation services and products at no charge. Intense price competition could result in a reduction of our market share, lower revenues or lower margins.

U.S. federal and certain state taxing authorities, as well as taxing authorities in certain foreign jurisdictions in which we operate, currently offer, or facilitate the offering of, tax return preparation and electronic filing options to taxpayers at no charge, and volunteer organizations prepare tax returns at no charge for low-income taxpayers. In addition, many of our competitors offer certain tax preparation and electronic filing options at no charge. In order to compete, we also have free tax service offerings in several categories. We enabled the preparation of 774,000, 861,000 and 767,000 U.S. federal income tax returns in fiscal years 2013, 2012 and 2011, respectively, at no charge through the FFA. We also have free online tax preparation offerings and provided free preparation of Federal 1040EZ forms in fiscal years 2013, 2012 and 2011, and free RACs to certain clients in fiscal year 2012. There can be no assurance that we will be

able to attract clients or effectively ensure the migration of clients from our free tax service offerings to those for which we receive fees, and clients who have formerly paid for our tax service offerings may elect to use free offerings instead. These competitive factors may diminish our revenue and profitability, or harm our ability to acquire and retain clients.

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Government tax authorities, volunteer organizations and our direct competitors may also elect to expand free offerings in the future. From time to time U.S. federal and state governments have considered various proposals (often referred to as “Return-Free Filing” or “Real-Time Tax”) through which the respective governmental taxing authorities would use taxpayer information to “pre-populate,” prepare and calculate tax returns and distribute them to taxpayers. The taxpayer could then challenge the return or sign and return it. Although the FFA has kept the federal government from becoming a direct competitor to our tax service offerings in the U.S., it has fostered additional online competition and may cause us to lose significant revenue opportunities. We anticipate that governmental encroachment at both the U.S. federal and state levels, as well as comparable government levels in foreign jurisdictions in which we operate, may present a continued competitive threat to our business for the foreseeable future.

See tax returns prepared statistics included in Item 7, under “Tax Services – Operating Statistics.”

Failure to comply with laws and regulations that protect our clients’ and employees’ personal and financial information could harm our brand and reputation and could result in significant fines, penalties and damages.

A number of our businesses collect, use and retain large amounts of personal client information and data, including credit card numbers, tax return information, bank account numbers and social security numbers. In addition, we collect and maintain personal information of our employees in the ordinary course of our business. Some of this personal information is held and some transactions are executed by third parties. We use security and business controls to limit access to and use of personal information. However, unauthorized individuals or third parties may be able to circumvent these security and business measures, which may require notification under applicable data privacy regulations. We employ contractors and temporary employees who may have access to the personal information of clients and employees or who may execute transactions in the normal course of their duties. While we conduct background checks and limit access to systems and data, it is possible that one or more of these controls could be circumvented. Improper disclosure or use of our client's personal and financial information could result in damage to our brand and reputation; actions required to remediate improper disclosures could be costly.

We are subject to laws, rules and regulations relating to the collection, use, disclosure and security of consumer financial information, which have drawn increased attention from U.S. federal and state governments, as well as governmental authorities in foreign jurisdictions in which we operate. In the U.S., the IRS imposes various prohibitions on the use or disclosure by a tax return preparer of a taxpayer's information for purposes other than tax return preparation without the prior written consent of the taxpayer. In addition, other regulations require financial service providers to adopt and disclose consumer privacy policies and provide consumers with a reasonable opportunity to “opt-out” of having nonpublic personal information disclosed to unaffiliated third parties. Several jurisdictions have passed new laws in this area and other jurisdictions are considering imposing additional restrictions. These laws may be interpreted and applied inconsistently from jurisdiction to jurisdiction and our current data protection policies and practices may not be consistent with those interpretations and applications. In addition, changes in these U.S. federal and state regulatory requirements, as well as requirements imposed by governmental authorities in foreign jurisdictions in which we operate, could result in more stringent requirements and could result in a need to change business practices, including the types of information we can use and the manner in which we can use such information. Establishing systems and processes to achieve compliance with these new requirements may increase costs or limit our ability to pursue certain business opportunities.

A security breach involving confidential client information may adversely affect our offer of online services, our reputation and financial performance.

We offer a range of services to our clients online, including digital and assisted tax services and banking services provided by HRB Bank, and we store a large amount of personal client data on our servers. A significant requirement of providing online financial transactions is the secure transmission of confidential information over public networks. We and our vendors use commercially available security technologies to protect confidential transactions and personal information. The systems we use rely on encryption and authentication technology to provide secure transmission of confidential information. However, advances in computer capabilities, new discoveries in the field of cryptography or other developments could result in a compromise or breach of the algorithms used to protect client data. Errors in the storage, use or transmission of personal information may result in a breach of client data. If we, or another provider of financial services through the internet, were to suffer damage from a security breach, public acceptance and use of our

online services could suffer.

In addition, our clients may access our online tax services from their computers and mobile devices, install and use our H&R Block At Home<sup>®</sup> tax preparation software on their computers, and access online banking services from their computers and mobile devices. Because our business model relies on our clients' use of their own personal computers, mobile devices and the internet, computer viruses and other attacks on our clients' personal computer systems and mobile devices could create losses for our clients even without any breach in the security of our systems, and could thereby harm our business and our reputation. We also rely on our franchisees to maintain secure systems.

A major breach of our security measures or those of our franchisees or third parties that execute transactions or hold and manage personal information may have serious negative consequences for our businesses, including reduced client demand for our services and products, harm to our reputation and brands, possible fines, penalties and damages, further regulation and oversight by U.S. federal, state or foreign governmental agencies, and loss of our ability to provide financial transaction services or accept and

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process client credit card orders or tax returns. From time to time, we detect, or receive notices from clients or public or private agencies that they have detected, vulnerabilities in our servers, our software or third-party software components that are distributed with our services and products. The existence of vulnerabilities, even if they do not result in a security breach, may harm client confidence and require substantial resources to address, and we may not be able to discover or remediate such security vulnerabilities before they are exploited. Although we have commercially available network and application security, internal control measures, and physical security procedures to safeguard our systems, there can be no assurance that a security breach, intrusion, loss or theft of personal information will not occur.

Any security breach could impair our ability to grow and maintain profitability and, possibly, our ability to continue delivering our services and products through the internet. Although we, with the help of third party service providers, intend to continue to implement security technology and establish operational procedures to prevent security breaches, there can be no assurance that these measures will be successful, which could harm our business, reputation with clients and future financial results and require us to expend significant resources to address these matters, including notification under data privacy regulations.

An interruption in our information systems, or those of our franchisees or a third party on which we rely, or an interruption in the internet could have a material adverse effect on our business and our consolidated financial position, results of operations and cash flows.

We rely heavily upon communications and information systems and the internet to conduct our business. Our systems and operations are potentially vulnerable to damage or interruption from network failure, hardware failure, software failure, power or telecommunications failures, computer viruses and worms, negative disruptions to the operation of the internet, penetration of our network by hackers or other unauthorized users and natural disasters. Any failure or interruption in our information systems, or information systems of our franchisees or a third party on which we rely, or an interruption in the internet or other critical business capability could negatively impact our core business operations and increase our risk of loss. As our businesses are seasonal, our systems must be capable of processing high volumes during peak season. Therefore, service interruptions resulting from system or internet failures could negatively impact our ability to serve our clients, which in turn could have a material adverse effect on our business and our consolidated financial position, results of operations and cash flows.

We cannot make assurances that system or internet failures, or interruptions in critical business capabilities will not occur, or if they do occur that we, our franchisees or the third parties on whom we rely will adequately address them. The precautionary measures that we have implemented to avoid systems outages and to minimize the effects of any data or communication systems interruptions may not be adequate, and we may not have anticipated or addressed all of the potential events that could threaten or undermine our information systems or other critical business capability. The occurrence of any systems or internet failure, or business interruption could negatively impact our ability to serve our clients, which in turn could have a material adverse effect on our business and our consolidated financial position, results of operations and cash flows.

Government initiatives that simplify tax return preparation or expedite refunds could reduce the need for our services as a third-party tax return preparer, and cause our revenues or results of operations to decline.

Many taxpayers seek assistance from paid tax return preparers such as us not only because of the level of complexity involved in the tax return preparation and filing process, but also because of paid tax return preparers' ability to expedite refund proceeds under certain circumstances. From time to time, the IRS or members of Congress propose measures seeking to simplify the preparation and filing of federal tax returns, including preparation of tax returns directly by the IRS, and to provide additional assistance with respect to preparing and filing such tax returns or expediting refunds. H&R Block is a member of the FFA, which provides the ability for low-income taxpayers to prepare and file their own tax return for free. The IRS has been exploring the Real Time Tax System concept, which would require that documents (such as W-2s and 1099s) must be on file with the IRS prior to the taxpayer submitting their tax return. The objective of this concept would be to facilitate document matching such that it would reduce fraud, and after the fact audits. The implementation of the Real Time Tax System would provide the foundation for the IRS preparation of tax returns, and thus, were it to come to fruition, makes the pre-populated return a more tangible possibility.

In the past, the U.S. Department of the Treasury completed a prepaid debit card pilot program designed to facilitate the refund process. HRB Bank also provides this type of service through its H&R Block Prepaid Emerald MasterCard®. Additionally, the IRS has in the past explored the possibility of allowing taxpayers to allocate a portion of their tax refund to pay the tax preparation fees, which could reduce the demand for RACs. However, the IRS has not advanced this initiative. Taxing authorities in foreign jurisdictions in which we operate, and various state and local taxing authorities, have also introduced measures seeking to simplify the preparation and filing of tax returns in their respective jurisdictions. The adoption or expansion of any measures that significantly simplify tax return preparation, expedite refunds or otherwise reduce the need for a third-party tax return preparer could reduce demand for our services and products and cause our revenues or results of operations to decline.

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

Our subsidiary, HRB Bank, is a federal savings bank. 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 August 30, 2012, the Federal Reserve published in the Federal Register 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. See Item 1, “Regulation and Supervision - Bank and Holding Companies,” for details of the proposed requirements.

The Federal Reserve Bank, the Company's primary banking regulator, has issued 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. Pursuant to Supervisory Letter SR 11-11 (July 21, 2011), the Federal Reserve has directed examiners to apply the principles of SR 09-4 to SLHCs. Pursuant to SR 09-4, we have committed to provide notice to the Federal Reserve prior to paying dividends or repurchasing shares.

The Proposed Capital Rules 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 our other capital allocation decisions, including stock repurchases, acquisitions, and other forms of strategic investment.

As previously announced, 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 services and products to our customers. Our evaluation of alternatives is ongoing and 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. If we are successful in our efforts to cease being an SLHC, the means we use to deliver financial services and products to our customers will change, and the revenues and profitability of those offerings could be adversely impacted.

HRB Bank is subject to extensive U.S. federal banking laws and regulations. If we fail to comply with applicable banking laws and regulations, we could be subject to disciplinary actions, damages, penalties or restrictions that could significantly harm our business.

HRB Bank is subject to regulation, examination, supervision, reporting requirements and enforcement by the OCC. The OCC can, among other things, issue cease-and-desist orders, assess civil money penalties and remove bank directors, officers or employees, for violations of banking laws and regulations or engaging in unsafe and unsound banking practices.

HRB Bank is subject to OCC regulatory capital requirements. Failure to meet minimum capital requirements may trigger actions by regulators that could have a direct, material effect on HRB Bank. HRB Bank must meet specific capital guidelines involving quantitative measures of assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. OCC regulations currently require HRB Bank to maintain minimum amounts



and ratios of tangible equity, total risk-based capital and Tier 1 capital.

The laws and regulations imposed by U.S. federal banking regulators generally involve restrictions and requirements in connection with a variety of technical, specialized and expanding matters and concerns. For example, compliance with anti-money laundering and know-your-customer requirements, and the Bank Secrecy Act, has taken on heightened importance with regulators as a result of efforts to limit terrorism. There has been increased regulation with respect to the protection of customer privacy and the need to secure sensitive customer information. Being subject to banking regulation may put us at a disadvantage compared to our competitors which are not subject to such requirements.

The OCC could deem certain products offered by HRB Bank to be “unsafe and unsound” and require HRB Bank to discontinue offering such products. To the extent such products are instrumental in attracting clients to our offices for tax preparation services,

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we could experience a significant loss of clients should such products be discontinued. This could cause our revenues or profitability to decline.

The Dodd-Frank Act created the CFPB to administer and enforce all U.S. federal consumer protection laws and expanded the role of state regulators with respect to consumer protection laws. Regulations promulgated by the CFPB or state regulators may affect our bank and financial services businesses in ways we cannot predict, which may require changes to our financial products, services and contracts.

The Dodd-Frank Act also created the CFPB with broad powers to administer and enforce all U.S. federal consumer protection laws. The CFPB has broad rule-making authority for a wide range of consumer protection laws that apply to all banks, federal savings banks, and other financial services companies, including the authority to prohibit “unfair, deceptive or abusive” acts and practices. The CFPB has examination and enforcement authority over all banks with more than \$10 billion in assets. Banks with \$10 billion or less in assets will continue to be examined for compliance with the consumer laws by their primary bank regulators. HRB Bank does not currently have assets in excess of \$10 billion.

Although the CFPB has extensive rulemaking and enforcement powers that may impact our business operations, the potential reach of the CFPB's authority on the operations of banks and financial services companies offering consumer financial services or products, including our bank and financial services subsidiaries, is currently unknown. The CFPB may examine, and take enforcement actions against, our non-bank subsidiaries that provide consumer financial services and products. The Dodd-Frank Act also expanded the role of state regulators in enforcing and promulgating consumer protection laws, the results of which could be states issuing new and broader consumer protection laws, some of which could be more comprehensive than U.S. federal regulations. New CFPB and state regulations may require changes to our financial products, services and contracts, the effects of which cannot be predicted.

The nature of our tax service and product offerings requires timely product launches. Any significant delays in launching our tax service and product offerings, changes in government regulations or processes that affect how we provide such offerings to our clients, or significant problems with such offerings may harm our revenue, results of operations and reputation.

Tax laws and tax forms are subject to change each year, and the nature and timing of any such changes are unpredictable. As a part of our business, we must incorporate any changes to tax laws and tax forms into our tax service and product offerings, including our H&R Block At Home<sup>®</sup> online tax services and tax preparation software. The unpredictable nature of changes to tax laws and tax forms can result in condensed development cycles for our tax service and product offerings because our clients expect high levels of accuracy and a timely launch of such offerings to prepare and file their taxes by the tax filing deadline and, in turn, receive any tax refund amounts on a timely basis. In addition, governmental authorities continually change their processes for accepting tax filings and related tax forms. Any changes in governmental regulations and processes that affect how we provide services and products to our clients may require us to make corresponding changes to our client service systems and procedures. Furthermore, any unanticipated changes in governmental processes for accepting tax filings and related forms, or the ability of taxing authorities to accept electronic tax return filings, may result in delays in processing our clients' tax filings, or delays in tax authorities accepting electronic tax return filings, and, in turn, delay any tax refund amounts to which such clients may be entitled. From time to time, we review and enhance our quality controls for assuring accurate tax returns that we prepare, but there can be no assurance that we will be able to prevent all inaccuracies.

If we encounter development challenges or discover errors in our services and products late in our development cycle it may cause us to delay the launch dates of our offerings. Any major defects or launch delays, or failure to anticipate changes in governmental processes accepting tax filings and related forms, may lead to loss of clients and revenue, negative publicity, client and employee dissatisfaction, a deterioration in our business relationships with our franchisees, reduced retailer shelf space and promotions, exposure to litigation and increased operating expenses. We rely on a single vendor or a limited number of vendors to provide certain key services or products, and the inability of these key vendors to meet our needs could have a material adverse effect on our business and our consolidated financial position, results of operations and cash flows.

Historically we have contracted, and in the future will likely continue to contract, with a single vendor or a limited number of vendors to provide support for our tax, financial and other services and products. In certain instances, we

are vulnerable to vendor error, service inefficiencies, service interruptions or service delays; however, our sensitivity to any of these issues may be heightened (1) due to the seasonality of our business, (2) with respect to any vendor that we utilize for the provision of any such product or service that has specialized expertise, (3) with respect to any vendor which is a sole provider, or (4) with respect to any vendor whose indemnification obligations are limited or who does not have the financial capacity to satisfy its indemnification obligations. If such a vendor is unable to meet our needs in a timely manner or if the services or products 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 services

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and products quickly and cost-effectively, it could result in a material and adverse impact on our business and our consolidated financial position, results of operations and cash flows.

The highly seasonal nature of our business presents financial risks and operational challenges, which if we fail to address could materially affect our business and our consolidated financial position, results of operations and cash flows.

Our business is highly seasonal, with the substantial portion of our revenue earned in the last four months of our fiscal year, which is the period from January through April of each year. The concentration of our revenue-generating activity during this relatively short period presents a number of challenges for us, including but not limited to: (1) cash and resource management during the first eight months of our fiscal year, when we generally operate at a loss and incur fixed costs and costs of preparing for the upcoming tax season; (2) ensuring compliance with financial covenants under our debt agreements, particularly if the timing of our revenue generation deviates from this seasonal period; (3) the availability of a seasonal workforce, including tax professionals, and our ability to hire, train, and supervise these employees; (4) responding to changes in competitive conditions, including marketing, pricing, and new product offerings, which could affect our position during the tax season; (5) disruptions in a tax season, including any customer dissatisfaction issues, may not be timely discovered; and (6) ensuring optimal uninterrupted operations and service delivery during peak season. If we experience significant business disruptions during the tax season or if we are unable to satisfactorily address the challenges described above and related challenges associated with a seasonal business, we could experience a loss of business, which could 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 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, including relating to our various service and product offerings. We also grant our franchisees a limited license to use our registered service marks and, accordingly, there is risk that one or more of the franchisees may be identified as being controlled by us. Third parties, regulators or courts may seek to hold us responsible for the actions or failures to act by our franchisees. 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 securities to decline.

In addition, we have been sued, and certain of our competitors have been sued, in connection with the offering of different types of refund transfer products. A court issued a ruling, which is not subject to appellate review, that a competitor's specific version of a refund transfer product should be considered a loan, and subject to truth-in-lending and other related laws. Another competitor recently entered into a settlement agreement, subject to final court approval, involving similar claims. We believe there are factual and legal differences that distinguish us and our RAC product from that of our competitors. Revenues from our RAC product totaled \$158 million in fiscal year 2013; any requirement that materially alters our offering of RACs, including limitations on the fees we charge or disclosure requirements that could reduce the demand for these products, could have a material adverse impact on our business and our consolidated financial position, results of operations and cash flows.

Our access to liquidity may be negatively impacted as disruptions in credit markets occur, if credit rating downgrades occur or if we fail to meet certain covenants. Funding costs may increase, leading to reduced earnings.

We need liquidity to meet our off-season working capital requirements, to service debt obligations including refinancing of maturing obligations, and for other corporate purposes. Our access to and the cost of liquidity could be negatively impacted in the event of credit rating downgrades or if we fail to meet existing debt covenants. In addition, events could occur which could increase our need for liquidity above current levels.

If rating agencies downgrade our credit rating, the cost of debt under our existing financing arrangements, as well as future financing arrangements and borrowings under our commercial paper program, could increase and capital market access could decrease or become unavailable. Our unsecured committed line of credit (2012 CLOC) is subject to various covenants, and a violation of a covenant could impair our access to liquidity currently available through the

2012 CLOC. If current sources of liquidity were to become unavailable, we would need to obtain additional sources of funding, which may not be available or may only be available under less favorable terms.

The continued payment of dividends on our common stock and repurchases of our common stock are dependent on a number of factors, and future payments and repurchases cannot be assured.

We need liquidity sufficient to fund payments of dividends on our common stock and repurchases of our common stock. In addition, holders of our common stock are only entitled to receive such dividends as our Board of Directors may declare out of funds legally available for such payments, and our Board of Directors may only authorize the Company to repurchase shares of our common

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stock with funds legally available for such repurchases. The payment of future dividends and future repurchases will depend upon our earnings, economic conditions, liquidity and capital requirements and other factors, including our debt leverage. Accordingly, we cannot make any assurances that future dividends will be paid, or future repurchases will be made, at levels comparable to our historical practices, if at all. Due to the seasonal nature of our business, and the fact that our business is not asset-intensive, there may be periods of time during our fiscal year in which the payment of dividends or stock repurchases may cause us to have a negative net worth under GAAP, which, in turn, could create challenges in maintaining our credit ratings and our access to capital markets. See additional discussion regarding our provision of notice to the Federal Reserve prior to paying dividends or repurchasing shares in the risk factor related to the proposed Federal Reserve capital requirements.

Our businesses may be adversely affected by difficult economic conditions, in particular, high unemployment levels. Difficult economic conditions are frequently characterized by high unemployment levels and declining consumer and business spending. These poor economic conditions may negatively affect demand and pricing for our services and products. Higher unemployment levels, especially within client segments we serve, may result in clients no longer being required to file tax returns, electing not to file tax returns, or clients seeking lower cost preparation and filing alternatives. Sustained levels of high unemployment may negatively impact our ability to increase or retain tax preparation clients.

Economic conditions that negatively affect housing prices and the job market may result in deterioration in credit quality of mortgage loans held for investment and other loans, and such deterioration could have a negative impact on our business and profitability. The fair value of these mortgage loans is less than their carrying value and a decision by us to no longer hold these loans for investment would result in a significant impairment.

The overall credit quality of mortgage loans held for investment is impacted by the strength of the U.S. economy and local economic conditions, including residential housing prices. Economic trends that negatively affect housing prices and the job market could result in deterioration in credit quality of our mortgage loan portfolio and a decline in the value of associated collateral. Future interest rate resets could also lead to increased delinquencies in our mortgage loans held for investment.

Mortgage loans held by us are secured by properties concentrated in the states of Florida, New York and California, which represented 19%, 19% and 11%, respectively, of total mortgage loans held for investment at April 30, 2013. No other state held more than 10% of loan balances. If adverse trends in the residential mortgage loan market continue, particularly in geographic areas with a greater concentration of mortgage loans, we could incur additional loan loss provisions.

Mortgage loans purchased from our affiliate, Sand Canyon Corporation, previously known as Option One Mortgage Corporation (including its subsidiaries, collectively, SCC) represent 57% of total loans held for investment at April 30, 2013. These loans have experienced higher delinquency rates than other loans, and may expose us to greater risk of credit loss.

Mortgage loans held for investment had a carrying value of \$338.8 million and a fair value of \$210.9 million at April 30, 2013. Although we have no current intent to do so, if we decide to sell these mortgage loans in the future we would incur an impairment loss for the difference between carrying value and fair value at the time of sale.

In addition to mortgage loans, we also extend secured and unsecured credit to other clients, including providing EAs to our tax clients. We may incur significant losses on credit we extend, which in turn could reduce our profitability.

Our business depends on our strong reputation and the value of our brands.

Developing and maintaining awareness of our brands is critical to achieving widespread acceptance of our existing and future services and products and is an important element in attracting new clients. In addition, our franchisees operate their businesses under our brands. Adverse publicity (whether or not justified) relating to events or activities attributed to us, our franchisees, employees or agents may tarnish our reputation and reduce the value of our brands. Damage to our reputation and loss of brand equity may reduce demand for our services and products and thus have an adverse effect on our future financial results, as well as require additional resources to rebuild our reputation and restore the value of our brands.

Failure to protect our intellectual property rights may harm our competitive position, and litigation to protect our intellectual property rights or defend against third party allegations of infringement may be costly.

Despite our efforts to protect our intellectual property and proprietary information, we may be unable to do so effectively in all cases. Competitors may misappropriate our trademarks or other intellectual property rights or duplicate our technology and products which may adversely affect our ability to compete with them. To the extent that our intellectual property is not protected effectively through trademarks, patents or other means, other parties, including former employees, with knowledge of our intellectual property may seek to exploit our intellectual property for their own or others' advantage. In addition, third-parties may allege we are infringing on their intellectual property, and we may face intellectual property challenges from other parties. We may not be successful in defending against any such challenges or in obtaining licenses to avoid or resolve any intellectual property disputes

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and, in that event, we could lose significant revenues, incur significant license, royalty or technology development expenses, or pay significant monetary damages.

Failure to maintain sound business relationships with our franchisees may have a material adverse effect on our business and our consolidated financial position, results of operations and cash flows.

Our financial success depends in significant part on our ability to maintain sound business relationships with our franchisees. The support of our franchisees is also critical for the success of our marketing programs and any new strategic initiatives we seek to undertake. Deterioration in our relationships with our franchisees or the failure of our franchisees to support our marketing programs and strategic initiatives could have a material adverse effect on our business and our consolidated financial position, results of operations and cash flows.

Our international operations are subject to increased risks which may harm our business and our consolidated financial position, results of operations and cash flows.

We currently have operations in Canada, Australia, India, and Brazil, and may consider expansion opportunities in additional countries in the future. In addition to uncertainty about our ability to generate revenues from these foreign operations and expand into other international markets, there are risks inherent in doing business internationally, including: (1) changes in trade regulations; (2) difficulties in managing foreign operations as a result of distance, language, and cultural differences; (3) profit repatriation restrictions, and fluctuations in foreign currency exchange rates; (4) geopolitical events, including acts of war and terrorism, and economic and political instability; (5) compliance with U.S. laws such as the Foreign Corrupt Practices Act and similar foreign laws; and (6) risks related to other government regulation or required compliance with local laws. These risks inherent in our international operations and expansion increase our costs of doing business internationally and may result in harm to our business and our consolidated financial position, results of operations and cash flows.

**RISKS RELATING TO DISCONTINUED OPERATIONS**

SCC is subject to potential contingent losses related to representation and warranty claims, which may have an adverse effect on our cash flows, financial condition and results of operations. SCC has accrued an estimated liability related to these contingent losses that may not be adequate.

SCC remains exposed to losses relating to mortgage loans it previously originated. 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 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. SCC believes it would have an obligation to repurchase a loan or indemnify certain parties with respect to a claim for a breach of a representation and warranty only if such breach materially and adversely affects the value of the mortgage loan, or a securitization insurer's or certificate holder's interest in the mortgage loan, and the mortgage loan has not been liquidated, although there is limited and conflicting case law on the liquidated loan defense issue. Such claims together with any settlement arrangements related to these losses are collectively referred to as "representation and warranty claims."

The statute of limitations for a contractual claim to enforce a representation and warranty obligation is generally six years or such shorter limitations period that may apply under the law of a state where the economic injury occurred. SCC believes that the limitations period begins to run from the applicable closing date of the sale of the loans or RMBS, although there is limited and conflicting case law on this issue. During fiscal year 2013, SCC entered into tolling agreements with several parties to toll the running of any applicable statute of limitations related to potential representation and warranty claims and other claims against SCC.

Development of loss estimates is subjective, subject to a high degree of management judgment, and estimates may vary significantly period to period. SCC records a liability for losses related to representation and warranty claims when those losses are believed to be both probable and reasonably estimable. Historically, SCC has developed its estimate of losses related to representation and warranty claims based primarily on projections of future claims on a



loan-by-loan basis. As a result of counterparty activity occurring during the fourth quarter, SCC has reassessed its prior estimate for losses, placing greater emphasis on bulk settlement discussions involving counterparties subject to tolling agreements rather than projections of future claims on a loan-by-loan basis. The estimate is based on the best information currently available, significant management judgment, and a number of factors, including developments in case law and the factors mentioned in Item 7, "Critical Accounting Estimates," that are subject to change. Changes in any one of these factors could significantly impact the estimate.

SCC has accrued a liability as of April 30, 2013 for estimated contingent losses arising from representation and warranty claims of \$158.8 million. If future losses are in excess of SCC's accrued liability, those losses could have a material adverse effect on our

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business and our consolidated financial position, results of operations and cash flows, as SCC's financial condition, operating results and cash flows are included in our consolidated financial statements. The accrued liability does not include potential losses related to litigation matters discussed in the risk factor below and in Item 8, note 18 to the consolidated financial statements. Also see Item 8, note 19 to the consolidated financial statements.

SCC is subject to potential contingent losses related to securitization transactions in which SCC participated as a depositor or loan originator, which may result in significant financial losses.

Between January 2005 and November 2007, SCC participated in approximately 110 securitization transactions. In most of these securitization transactions, SCC agreed, subject to certain conditions and limitations, to indemnify the underwriters or depositors for certain losses and expenses that the underwriters or depositors may incur as a result of certain claims made against them relating to loans originated by SCC, including certain legal expenses the underwriters or depositors incur in their defense of such claims. Some of those underwriters and depositors are defendants in lawsuits where various other parties allege a variety of claims, including violations of U.S. federal and state securities law and common law fraud based on alleged materially inaccurate or misleading disclosures, arising out of the activities of such underwriters or depositors in their sale of RMBSs or mortgage loans. Based on information currently available to SCC, it believes that the 15 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 in Item 8, note 18) 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 notices of claims for indemnification may be received by SCC in the future from underwriters or depositors who are subject to existing or new litigation.

In addition, other counterparties to the securitization transactions, including certificate holders, securitization trustees and monoline insurance companies, have filed or may file lawsuits, or may assert indemnification claims, directly against depositors and loan originators in securitization transactions alleging a variety of claims, including U.S. federal and state securities law violations, common law torts and fraud and breach of contract, among others. Additional or new lawsuits may be filed against SCC in the future.

These matters are in the early stages and SCC is not able to reasonably estimate the associated amount of any possible loss or range of loss. As a result, we have not accrued any liability related to these exposures. However, if SCC were required to pay material amounts with respect to these matters, it could have a material adverse effect on our business and our consolidated financial position, results of operations and cash flows, as SCC's financial condition, operating results and cash flows are included in our consolidated financial statements. See Item 8, note 18 to the consolidated financial statements for additional information.

H&R Block has guaranteed the payment of certain limited claims against SCC.

SCC is subject to representation and warranty claims by counterparties to SCC whole loan sales and securitization transactions, including certificate holders, securitization trustees and monoline insurance companies. In certain limited circumstances described below, H&R Block has outstanding guarantees of payment if claims are successfully asserted by such counterparties.

These guarantees include representation and warranty claims with respect to a limited number of whole loan sales by SCC with an aggregate outstanding principal and liquidated amount of approximately \$1.4 billion as of January 31, 2013, according to the most recent data available to SCC from its servicer. There have been a total of \$33 million of representation and warranty claims with respect to these whole loan sales, of which \$4 million were deemed valid and paid by SCC, representing significantly less than one percent of the original principal amount of such loans.

These guarantees also cover limited representation and warranty claims on other outstanding securitization transactions, with a potential claims exposure of less than \$200 million. In addition, as is customary in divestiture transactions, H&R Block guaranteed the payment of any indemnification claims from the purchaser of SCC's servicing business, including claims relating to pre-closing services (which closing occurred in 2008).

If SCC were to become insolvent, we could be subject to claims by the unpaid creditors of SCC.

As discussed above, SCC is subject to representation and warranty claims and other claims and litigation related to its past sales and securitizations of mortgage loans. It is likely that additional claims and proceedings will be made in the

future. If the amount that SCC is ultimately required to pay with respect to these claims and litigation exceeds its net assets, the creditors of SCC, or a bankruptcy trustee if SCC were to file or be forced into bankruptcy, may attempt to assert claims against us for payment of SCC's obligations. We believe our legal position is strong on any potential corporate veil-piercing arguments; however, if this position is challenged and not upheld, it could have a material adverse effect on our business and our consolidated financial position, results of operations and cash flows. In addition, in certain limited instances, H&R Block guaranteed amounts as outlined in the above risk factor.

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## ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

## ITEM 2. PROPERTIES

Most of our tax offices are operated under leases or similar agreements throughout the U.S. Our Canadian executive offices are located in a leased office in Calgary, Alberta. Most of our Canadian tax offices are operated under leases throughout Canada. Our Australian executive offices are located in a leased office in Thornleigh, New South Wales. Our Australian tax offices are operated under leases throughout Australia.

HRB Bank is headquartered and its single branch location is located in our corporate headquarters. We own our corporate headquarters, which is located in Kansas City, Missouri. All current leased and owned facilities are in reasonably good repair and adequate to meet our needs.

## ITEM 3. LEGAL PROCEEDINGS

For a description of our material pending legal proceedings, see discussion in Item 8, note 18 to the consolidated financial statements.

## ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

## PART II

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

H&R Block's common stock is traded on the New York Stock Exchange (NYSE) under the symbol HRB. On May 31, 2013, there were 20,682 shareholders of record and the closing stock price on the NYSE was \$29.27 per share.

The quarterly information regarding H&R Block's common stock prices and dividends appears in Item 8, note 23 to the consolidated financial statements.

A summary of our securities authorized for issuance under equity compensation plans as of April 30, 2013 is as follows:

(in 000s, except per share amounts)

	Number of securities to be issued upon exercise of options warrants and rights	Weighted-average exercise price of outstanding options warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column)
Equity compensation plans approved by security holders	4,340	\$ 17.58	11,298
Equity compensation plans not approved by security holders	—	\$ —	—
Total	4,340	\$ 17.58	11,298

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

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A summary of our purchases of H&R Block common stock during the fourth quarter of fiscal year 2013 is as follows:  
(in 000s, except per share amounts)

	Total Number of Shares Purchased <sup>(1)</sup>	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs <sup>(2)</sup>	Maximum Dollar Value of Shares that May be Purchased Under the Plans or Programs <sup>(2)</sup>
February 1 – February 28	2	\$22.86	—	\$ 857,504
March 1 – March 31	2	\$24.78	—	\$ 857,504
April 1 – April 30	1	\$29.25	—	\$ 857,504

(1) We purchased approximately five thousand shares in connection with funding employee income tax withholding obligations arising upon the exercise of stock options or the lapse of restrictions on restricted shares.

(2) In June 2008, our Board of Directors approved an authorization to purchase up to \$2.0 billion of our common stock through June 2012. In June 2012, our Board of Directors extended this authorization through June 2015.

PERFORMANCE GRAPH – The following graph compares the cumulative five-year total return provided shareholders on H&R Block, Inc.’s common stock relative to the cumulative total returns of the S&P 500 index and the S&P Diversified Commercial & Professional Services index. An investment of \$100, with reinvestment of all dividends, is assumed to have been made in our common stock and in each of the indexes on April 30, 2008, and its relative performance is tracked through April 30, 2013.

ITEM 6. SELECTED FINANCIAL DATA

We derived the selected consolidated financial data presented below from our audited consolidated financial statements as of and for each of the five annual periods ending April 30, 2013. Results of operations of fiscal years 2013, 2012 and 2011 are discussed in Item 7. The data set forth below should be read in conjunction with Item 7 and the consolidated financial statements in Item 8. During fiscal year 2012, we sold our previously reported Business Services segment and recorded a loss on the sale.

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				(in 000s, except per share amounts)	
April 30,	2013	2012	2011	2010	2009
Revenues	\$2,905,943	\$2,893,771	\$2,944,980	\$3,014,835	\$3,187,129
Net income from continuing operations	465,158	345,968	392,547	455,123	453,039
Net income	433,948	265,932	406,110	479,242	485,673
Basic earnings (loss) per share:					
Continuing operations	\$1.70	\$1.16	\$1.27	\$1.37	\$1.35
Consolidated	1.59	0.89	1.31	1.44	1.45
Diluted earnings (loss) per share:					
Continuing operations	\$1.69	\$1.16	\$1.27	\$1.36	\$1.35
Consolidated	1.58	0.89	1.31	1.43	1.45
Total assets	\$4,537,779	\$4,649,567	\$5,289,453	\$5,271,412	\$5,427,624
Long-term debt <sup>(1)</sup>	906,680	1,040,549	1,040,084	1,031,413	1,030,328
Stockholders' equity	1,263,547	1,325,892	1,449,574	1,440,630	1,405,859
Shares outstanding	272,635	292,119	305,366	323,306	334,102
Dividends per share <sup>(2)</sup>	\$0.80	\$0.70	\$0.45	\$0.75	\$0.59

<sup>(1)</sup> Includes current portion of long-term debt.

<sup>(2)</sup> Amounts represent dividends declared. In fiscal year 2010, a dividend of \$0.15 per share paid in July 2010 was declared in April 2010.

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

Our subsidiaries provide tax preparation and retail banking services. Tax returns are either prepared by H&R Block tax professionals (in company-owned or franchise offices or virtually via the internet or mobile applications) or prepared and filed by our clients through H&R Block At Home<sup>®</sup>, either online or using our software or mobile applications. We are the only major company offering a full range of DIY - online, software and mobile applications - and professional assisted tax preparation solutions to individual tax clients.

### OVERVIEW

A summary of our fiscal year 2013 results is as follows:

U.S. tax returns prepared by and through us decreased 0.7% from the prior year primarily due to a decline in overall filings with the IRS, which fell 0.6%.

Revenues for the fiscal year were \$2.9 billion, up 0.4% from the prior year, primarily as a result of discontinuation of our free RAC offer, growth in international and digital, partially offset by declines in U.S. assisted return volume.

Pretax earnings grew \$125.9 million, or 21.9%, primarily due to our cost saving initiatives in the current year.

Net earnings from continuing operations increased 34.5% from the prior year to \$465.2 million.

Diluted earnings per share from continuing operations increased 45.7% from the prior year to \$1.69, due to higher earnings and lower shares outstanding.

Adjusted EBITDA increased \$75.1 million, or 9.3%, due primarily to cost reduction efforts.

We recorded discrete tax benefits of \$33.3 million during fiscal year 2013, which was primarily 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.

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Consolidated Results of Operations Data	(in 000s, except per share amounts)		
Year ended April 30,	2013	2012	2011
<b>REVENUES:</b>			
Tax Services	\$2,877,967	\$2,862,378	\$2,912,361
Corporate and eliminations	27,976	31,393	32,619
	\$2,905,943	\$2,893,771	\$2,944,980
<b>INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE TAXES:</b>			
Tax Services	\$821,143	\$704,002	\$767,498
Corporate and eliminations	(119,132)	) (127,932)	) (139,795)
	702,011	576,070	627,703
Income taxes	236,853	230,102	235,156
Net income from continuing operations	465,158	345,968	392,547
Net income (loss) from discontinued operations	(31,210)	) (80,036)	) 13,563
Net income	\$433,948	\$265,932	\$406,110
<b>BASIC EARNINGS (LOSS) PER SHARE:</b>			
Continuing operations	\$1.70	\$1.16	\$1.27
Discontinued operations	(0.11)	) (0.27)	) 0.04
Consolidated	\$1.59	\$0.89	\$1.31
<b>DILUTED EARNINGS (LOSS) PER SHARE:</b>			
Continuing operations	\$1.69	\$1.16	\$1.27
Discontinued operations	(0.11)	) (0.27)	) 0.04
Consolidated	\$1.58	\$0.89	\$1.31
EBITDA FROM CONTINUING OPERATIONS <sup>(1)</sup>	\$874,375	\$757,316	\$812,988
EBITDA FROM CONTINUING OPERATIONS - ADJUSTED <sup>(1)</sup>	882,680	807,539	836,199

(1) See "Non-GAAP Financial Information" at the end of this item for a reconciliation of non-GAAP measures.

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## RESULTS OF OPERATIONS

## TAX SERVICES

This segment consists of our income tax preparation offerings - assisted, online and software, including tax operations primarily in the U.S. and its territories, Canada, and Australia. This segment also includes the activities of HRB Bank that primarily support the tax network.

## Tax Services – Operating Statistics

Year ended April 30,	2013	2012	2011
TAX RETURNS PREPARED : (in 000s)			
United States:			
Company-owned operations	8,907	9,207	9,168
Franchise operations	5,598	5,693	5,588
Total retail operations	14,505	14,900	14,756
Software	2,004	2,158	2,201
Online	4,892	4,419	3,722
Free File Alliance	774	861	767
Total digital tax solutions	7,670	7,438	6,690
Total U.S. operations	22,175	22,338	21,446
International operations:			
Canada <sup>(1)</sup>	2,517	2,545	2,411
Australia	741	671	644
Total international operations	3,258	3,216	3,055
Tax returns prepared worldwide	25,433	25,554	24,501
TAX OFFICES (at the peak of the tax season):			
U.S. offices:			
Company-owned offices	5,734	5,787	5,921
Company-owned shared locations <sup>(2)</sup>	477	734	572
Total company-owned offices	6,211	6,521	6,493
Franchise offices	4,384	4,296	4,178
Franchise shared locations <sup>(2)</sup>	123	175	397
Total franchise offices	4,507	4,471	4,575
Total U.S. offices	10,718	10,992	11,068
International offices:			
Canada	1,139	1,223	1,324
Australia	410	404	384
Total international offices	1,549	1,627	1,708
Tax offices worldwide	12,267	12,619	12,776

In fiscal year 2011, the end of the Canadian tax season was extended from April 30 to May 2, 2011. Tax returns prepared in Canada in fiscal year 2011 includes 51,000 returns in both company-owned and franchise offices which were accepted by the client on May 1 or 2. The revenues related to these returns were recognized in fiscal year 2012.

<sup>(2)</sup> Shared locations include offices located within Walmart and other third-party businesses. Our U.S. Walmart license agreement expired in April 2013.



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Tax Services – Financial Results	(dollars in 000s)			
Year ended April 30,	2013	2012	2011	
Tax preparation fees:				
U.S.	\$1,712,319	\$1,749,032	\$1,750,768	
International	220,870	205,466	180,256	
	1,933,189	1,954,498	1,931,024	
Royalties	318,386	308,561	304,194	
Fees from refund anticipation checks	158,176	132,361	181,661	
Fees from Emerald Card	98,896	104,143	90,451	
Fees from Peace of Mind® guarantees	71,355	75,603	78,413	
Interest and fee income on Emerald Advance	59,657	59,660	94,300	
Other	238,308	227,552	232,318	
Total revenues	2,877,967	2,862,378	2,912,361	
Compensation and benefits:				
Field wages	654,794	691,680	692,561	
Other wages	150,306	150,908	155,165	
Benefits and other compensation	148,492	183,037	174,254	
	953,592	1,025,625	1,021,980	
Occupancy and equipment	354,430	381,572	385,130	
Marketing and advertising	270,240	278,231	242,538	
Depreciation and amortization	92,004	88,836	90,672	
Bad debt	77,402	68,082	139,059	
Supplies	40,131	44,236	42,300	
Impairment of goodwill and intangible assets	3,581	11,389	22,700	
Other	265,444	260,405	200,484	
Total expenses	2,056,824	2,158,376	2,144,863	
Pretax income	\$821,143	\$704,002	\$767,498	
Pretax margin	28.5	% 24.6	% 26.4	%

FISCAL 2013 COMPARED TO FISCAL 2012 - Tax Services' revenues increased \$15.6 million, or 0.5%, compared to the prior year. U.S. tax preparation fees decreased \$36.7 million, or 2.1% primarily due to a 3.3% decline in returns prepared, partially offset by a 1.2% increase in our average charge. Total assisted tax returns processed by the IRS in the 2013 tax season fell 1.0%.

International tax preparation fees increased \$15.4 million, or 7.5%, due primarily to a 10.4% increase in Australian tax returns prepared, partially offset by unfavorable exchange rates.

Royalties increased \$9.8 million, or 3.2%, primarily due to a 2.7% increase in the average charge, partially offset by a 1.7% decrease in returns prepared in franchise offices.

Fees earned on RACs increased \$25.8 million, or 19.5%, primarily due to our decision to discontinue a promotion for free RACs offered last year, partially offset by lower RAC volumes.

Emerald Card fees decreased \$5.2 million, or 5.0%, primarily due to lower transaction volumes resulting from a decrease of approximately 14% in prepaid debit cards issued.

Other revenue increased \$10.8 million, or 4.7%, primarily due to an increase in online tax preparation revenues.

In connection with our evaluation of alternative means of ceasing to be an SLHC, we are exploring all options, including a variety of ways to structure any such transaction. Any such transaction may negatively impact our financial services revenues and profitability within the Tax Services segment.

Total expenses decreased \$101.6 million, or 4.7%, from the prior year. Total compensation and benefits decreased \$72.0 million primarily due to lower field wages in the current year resulting from workforce reductions and severance costs of \$31.1 million recorded in the prior year. Occupancy and equipment expenses decreased \$27.1

million primarily due to a 4.8% reduction in company-owned offices and other cost-saving initiatives. Bad debt expense increased \$9.3 million, or 13.7%, primarily due to credit losses associated with the initial offering of credit cards to our clients. Other expenses increased \$5.0 million, or 1.9%, primarily due to lower gains on the sale of tax offices, which declined \$15.3 million, partially offset by a reduction in litigation expenses in the current year.

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Pretax income for fiscal year 2013 increased \$117.1 million, or 16.6%, over the prior year. The pretax margin for the segment increased to 28.5% from 24.6% in fiscal year 2012.

FISCAL 2012 COMPARED TO FISCAL 2011 - Tax Services' revenues decreased \$50.0 million, or 1.7%, compared to the prior year. U.S. tax preparation fees were essentially flat compared to fiscal year 2011, as return volume and pricing in U.S. company-owned offices were relatively unchanged from fiscal year 2011.

International tax preparation fees increased \$25.2 million, or 14.0%, due primarily to an extension of the Canadian tax season and favorable exchange rates.

Royalties increased \$4.4 million, or 1.4%, primarily due to a 1.9% increase in returns prepared in franchise offices.

Fees earned on RACs decreased \$49.3 million, or 27.1%, due to a promotional offering, whereby clients were eligible to receive a RAC at no charge through February 4, if they elected to have their refund direct deposited onto an Emerald Card.

Emerald Card fees increased \$13.7 million, or 15.1%, primarily due to higher transaction volumes resulting from an increase of approximately 24% in prepaid debit cards issued.

Interest income earned on EAs decreased \$34.6 million, or 36.7%, as a result of lower EA volumes principally resulting from changes in underwriting criteria in fiscal year 2012.

Other revenue decreased \$4.8 million, or 2.1%, primarily due to the last of our RAL revenues (\$17.2 million) recognized in the prior year, partially offset by an increase in online tax preparation revenues.

Total expenses increased \$13.5 million, or 0.6%, compared to fiscal year 2011. Benefits and other compensation increased \$8.8 million, or 5.0%, primarily due to incremental severance costs. Marketing and advertising increased \$35.7 million, or 14.7%, as we expanded our marketing efforts, primarily in television and online. Bad debt expense decreased \$71.0 million, or 51.0%, primarily as a result of lower EA volumes and better collection rates in the current year. Other expenses increased \$59.9 million, or 29.9%, primarily due to incremental litigation expenses recorded in fiscal year 2012 and a decline in gains on the sale of tax offices of \$28.5 million, as we sold 83 offices in fiscal year 2012 compared to 280 in fiscal year 2011.

Pretax income for fiscal year 2012 decreased \$63.5 million, or 8.3%, from fiscal year 2011.

**CORPORATE, ELIMINATIONS AND INCOME TAXES ON CONTINUING OPERATIONS**

Corporate operating results 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, other corporate expenses and eliminations of intercompany activities.

**Corporate – Operating Results**

	(in 000s)		
Year ended April 30,	2013	2012	2011
Interest income on mortgage loans held for investment	\$ 16,556	\$ 20,322	\$ 24,693
Other	11,420	11,071	7,926
Total revenues	27,976	31,393	32,619
Interest expense	73,649	83,658	84,288
Provision for loan losses	13,283	24,075	35,567
Other, net	60,176	51,592	52,559
Total expense	147,108	159,325	172,414
Pretax loss	\$ (119,132	) \$ (127,932	) \$ (139,795

**FISCAL YEAR 2013 COMPARED TO FISCAL YEAR 2012**

Pretax results. Interest income earned on mortgage loans held for investment decreased \$3.8 million, or 18.5%, from the prior year, primarily as a result of declining balances and non-performing loans. Interest expense declined \$10.0 million, or 12.0%, due to lower interest rates on our Senior Notes, coupled with lower principal balances outstanding. Our provision for loan losses decreased \$10.8 million, or 44.8%, from the prior year as a result of the continued run-off of our portfolio. Other expenses increased \$8.6 million, or 16.6%, primarily due to the \$5.8 million loss on extinguishment of debt we incurred on the redemption of our \$600.0 million Senior Notes.



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Income Taxes on Continuing Operations. Our effective tax rate for continuing operations in fiscal year 2013 was 33.7% compared to 39.9% in the prior year. The lower effective tax rate was primarily due to reserve releases related to the settlement of tax years 1999-2007 with the IRS. The IRS settlement decreased the effective tax rate by 6.2%.

**FISCAL YEAR 2012 COMPARED TO FISCAL YEAR 2011**

Pretax results. Interest income earned on mortgage loans held for investment decreased \$4.4 million, or 17.7%, from fiscal year 2011, primarily as a result of declining rates and non-performing loans. Our provision for loan losses decreased \$11.5 million, or 32.3%, from fiscal year 2011 as a result of the continued run-off of our portfolio.

Income Taxes on Continuing Operations. Our effective tax rate for continuing operations in fiscal year 2012 was 39.9% compared to 37.5% in fiscal year 2011. The higher effective tax rate was primarily due to increased tax expense related to changes in the value of investments held within company-owned life insurance (COLI) policies. A portion of the increase related to COLI resulted from the decision to surrender COLI policies no longer required to support our deferred compensation liabilities. This decision triggered a one-time tax expense related to prior period gains. In addition to the impact of COLI, changes in tax items including valuation allowances, income tax reserves and other discrete tax adjustments caused a small net increase to tax expense.

**DISCONTINUED OPERATIONS**

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

Discontinued Operations – Operating Results	(in 000s)		
Year ended April 30,	2013	2012	2011
Revenues	\$—	\$417,168	\$828,725
Pretax income (loss) from operations:			
RSM and related businesses	\$1,205	\$14,441	\$48,021
Mortgage	(52,077)	(59,702)	(20,644)
	(50,872)	(45,261)	27,377
Income taxes (benefit)	(19,662)	(13,329)	13,814
Net income (loss) from operations	(31,210)	(31,932)	13,563
Pretax loss on sales of businesses	—	(109,719)	—
Income tax benefit	—	(61,615)	—
Net loss on sales of businesses	—	(48,104)	—
Net income (loss) from discontinued operations	\$(31,210)	\$(80,036)	\$13,563

**FISCAL YEAR 2013 COMPARED TO FISCAL YEAR 2012**

Results of operations. The net loss from our discontinued operations totaled \$31.2 million for the current year, compared to a net loss of \$80.0 million in the prior year.

Prior year losses included a \$99.7 million pretax goodwill impairment related to the sales of RSM and MCM, as well as operating income of \$14.4 million earned by those businesses prior to the sale.

Pretax losses of mortgage operations totaled \$52.1 million in the current year and resulted primarily from incremental loss provisions of \$40.0 million related to SCC's estimated contingent losses for representation and warranty claims.

Pretax losses of mortgage operations totaled \$59.7 million in fiscal year 2012 and resulted primarily from loss provisions relating to representation and warranty claims totaling \$20.0 million and settlement charges totaling \$28.0 million.

Income Taxes. Our effective tax rate for discontinued operations was 38.6% for the fiscal year ended April 30, 2013, compared to 48.4% the prior year. The prior year rate was higher due to the disposition of RSM which produced increased tax benefits from the loss.

**FISCAL YEAR 2012 COMPARED TO FISCAL YEAR 2011**

Results of operations. The net loss from our discontinued operations totaled \$80.0 million compared to income of \$13.6 million for fiscal year 2011. The loss on the sale of RSM and related businesses includes a \$99.7 million

goodwill impairment recorded in the first quarter related to the sales of RSM and MCM. Additionally, fiscal year 2011 includes twelve months of RSM operating results while fiscal year 2012 includes only seven months.

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The loss related to the mortgage business increased due to a settlement with the SEC of approximately \$28 million, coupled with \$20.0 million in incremental loss provisions related to an increase in SCC's estimated contingent losses for representation and warranty claims.

**Income Taxes.** The sale of RSM resulted in a pretax financial statement loss, but a gain for tax purposes. The tax gain resulted primarily from larger amortization deductions taken for tax purposes than for financial statement purposes. A portion of the gain from the sale of intangible assets is capital in nature and was offset by utilization of capital loss carry-forwards, resulting in an incremental tax benefit reported for financial statement purposes.

### **REPRESENTATION AND WARRANTY CLAIMS**

SCC records a liability for losses related to representation and warranty claims when those losses are believed to be both probable and reasonably estimable. SCC considers the experience gained through discussions with counterparties, and an assessment of, among other things, historical claim results, threatened claims, terms and provisions of related agreements, counterparty willingness to pursue a settlement, legal standing of counterparties to provide a comprehensive settlement, the potential pro-rata realization of the claims as compared to all similar claims and other relevant facts and circumstances when developing its estimate of probable loss.

Loss payments totaled \$11.3 million, \$16.2 million and \$61.9 million for fiscal years 2013, 2012 and 2011, respectively. These amounts were recorded as reductions of SCC's accrued representation and warranty liability. SCC recorded a \$40.0 million incremental provision to its liability for estimated contingent losses during the fourth quarter of fiscal year 2013, and a \$20.0 million provision in fiscal year 2012. The fiscal year 2013 provision was the result of events occurring during the fourth quarter, including tolling agreements SCC entered into with certain counterparties and bulk settlement discussions related to previously denied and potential future claims.

SCC has accrued a liability as of April 30, 2013 for estimated contingent losses arising from representation and warranty claims of \$158.8 million. The estimate of accrued loss is based on the best information currently available, significant management judgment, and a number of factors, including developments in case law and those factors mentioned above, that are subject to change. Changes in any one of these factors could significantly impact the estimate. However, it is reasonably possible that future representation and warranty losses may vary from the amounts recorded for these exposures. SCC currently estimates that the range of reasonably possible loss could be up to \$30 million in excess of amounts accrued. This estimated range is based on currently available information, significant judgment and a number of assumptions that are subject to change. The actual loss that may be incurred could be more or less than our accrual or the estimate of reasonably possible losses.

See additional discussion in Item 1A, "Risk Factors," "Critical Accounting Estimates" below and in Item 8, note 19 to the consolidated financial statements.

### **CRITICAL ACCOUNTING ESTIMATES**

We consider the estimates discussed below to be critical to understanding our financial statements, as they require the use of significant judgment and estimation in order to measure, at a specific point in time, matters that are inherently uncertain. Specific risks for these critical accounting estimates are described in the following paragraphs. We have reviewed and discussed each of these estimates with the Audit Committee of our Board of Directors. For all of these estimates, we caution that future events rarely develop precisely as forecasted and estimates routinely require adjustment and may require material adjustment.

See Item 8, note 1 to the consolidated financial statements, which discusses accounting estimates we have selected when there are acceptable alternatives and new or proposed accounting standards that may affect our financial reporting in the future.

**LOSSES ARISING FROM REPRESENTATIONS AND WARRANTIES** - 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. SCC believes it would have an obligation to repurchase a loan or indemnify certain parties with respect to a claim for a breach of a representation and warranty only if such breach materially and adversely affects the value of the mortgage loan, or a securitization insurer's or certificate holder's interest in the mortgage loan, and the mortgage loan has not been liquidated, although there is limited and conflicting case law on the liquidated loan defense issue. Such claims together with any settlement arrangements related to these losses are collectively referred to as “representation and warranty claims.”



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During the latter-half of fiscal year 2013, SCC entered into tolling agreements with the counterparties from whom SCC has received a significant majority of its asserted claims. These tolling agreements toll the running of any applicable statute of limitations related to potential representation and warranty claims and other claims against SCC. During the fourth quarter, SCC engaged in discussions with these counterparties regarding the bulk settlement of previously denied and potential future claims. Based on settlement discussions with these counterparties, SCC believes a bulk settlement approach, rather than the loan-by-loan claim process, will be needed to achieve settlement with these counterparties with respect to all of their representation and warranty and other claims. SCC has experienced a decline in claims on a loan-by-loan basis for alleged breaches of representations and warranties during fiscal year 2013, which it believes is primarily attributable to the existence of tolling agreements. In the event that current efforts to settle with these counterparties are not successful, SCC believes claim volumes may increase or litigation may result.

SCC records a liability for losses related to representation and warranty claims when those losses are believed to be both probable and reasonably estimable. Development of loss estimates is subjective, subject to a high degree of management judgment, and estimates may vary significantly period to period. Historically, SCC has developed its estimate of losses related to representation and warranty claims based primarily on projections of future claims on a loan-by-loan basis. As a result of recent counterparty activity, primarily settlement discussions occurring during the fourth quarter, SCC has reassessed its prior estimate for losses, placing greater emphasis on bulk settlement discussions involving counterparties subject to tolling agreements rather than projections of future claims on a loan-by-loan basis. SCC's loss estimate at April 30, 2013, considers the experience gained through discussions with counterparties, and an assessment of, among other things, historical claim results, threatened claims, terms and provisions of related agreements, counterparty willingness to pursue a settlement, legal standing of counterparties to provide a comprehensive settlement, the potential pro-rata realization of the claims as compared to all similar claims and other relevant facts and circumstances when developing its estimate of probable loss. The estimate is based on the best information currently available, significant management judgment, and a number of factors, including developments in case law and those factors mentioned above, that are subject to change. Changes in any one of these factors could significantly impact the estimate.

SCC has accrued a liability as of April 30, 2013 for estimated contingent losses arising from representation and warranty claims of \$158.8 million. The liability is included in accounts payable, accrued expenses and other current liabilities on the consolidated balance sheets. If future losses are in excess of SCC's accrued liability, those losses could have a material adverse effect on our business and our consolidated financial position, results of operations and cash flows, as SCC's financial condition, operating results and cash flows are included in our consolidated financial statements. It is reasonably possible that future representation and warranty losses may vary from the amounts recorded for these exposures. SCC currently estimates that the range of reasonably possible loss could be up to \$30 million in excess of amounts accrued. This estimated range is based on currently available information, significant judgment and a number of assumptions that are subject to change. The actual loss that may be incurred could be more or less than our accrual or the estimate of reasonably possible losses. The accrued liability does not include potential losses related to litigation matters discussed in Item 1A, "Risk Factors" and in Item 8, note 18 to the consolidated financial statements. Also see Item 8, note 19 to the consolidated financial statements.

**LITIGATION AND RELATED CONTINGENCIES** - It is our policy to routinely assess the likelihood of any adverse judgments or outcomes related to legal matters, as well as ranges of probable losses. A determination of the amount of the liability required to be accrued, if any, for these contingencies is made after analysis of each known issue and an analysis of historical experience. Therefore, we have accrued liabilities related to certain legal matters for which we believe it is probable that a loss will be incurred and the range of such loss can be reasonably estimated. With respect to other matters, we have concluded that a loss is only reasonably possible or remote, or is not reasonably estimable and, therefore, no liability is accrued.

Assessing the likely outcome of pending or threatened litigation, including the amount of potential loss, if any, is highly subjective. Our judgments on whether a loss is probable, reasonably possible or remote and our estimates of probable loss amounts may differ from actual results due to difficulties in predicting the outcome of jury trials, arbitration hearings, settlement discussions and related activity, predicting the outcome of class certification actions

and numerous other uncertainties. Due to the number of claims which are periodically asserted against us, and the magnitude of damages sought in those claims, actual losses in the future may significantly differ from our current estimates. We are subject to threatened litigation claims and indemnification claims, which are described in Item 8, note 18 to the consolidated financial statements.

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 April 30, 2013, we estimate the aggregate range of reasonably possible losses in excess of amounts accrued to be approximately \$0 to \$55 million, of which approximately 54% relates to our discontinued operations.

**ALLOWANCE FOR LOAN LOSSES** - We are exposed to the risk that borrowers may not repay amounts owed to us when they become contractually due. We record an allowance representing our estimate of probable credit losses in the portfolio of loans held for investment at the balance sheet date. Determination of our allowance for loan losses is considered a critical accounting estimate because loss provisions can be material to our operating results, projections of loan delinquencies and related matters are inherently subjective, and actual losses are impacted by factors outside of our control including economic conditions, unemployment

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rates and residential home prices. The principal amount of mortgage loans held for investment totaled \$350.2 million at April 30, 2013.

We record a loan loss allowance for loans less than 60 days past due on a pooled basis. The aggregate principal balance of these loans totaled \$207.3 million at April 30, 2013, and the portion of our allowance for loan losses allocated to these loans totaled \$5.6 million. In estimating our loan loss allowance for these loans, we stratify the loan portfolio based on our view of risk associated with various elements of the pool and assign estimated loss rates based on those risks. Loss rates are based primarily on historical experience and our assessment of economic and market conditions. Loss rates consider both the rate at which loans will become delinquent (frequency) and the amount of loss that will ultimately be realized upon occurrence of a liquidation of collateral (severity). Frequency rates are based primarily on historical migration analysis of loans to delinquent status. Severity rates are based primarily on recent broker quotes or appraisals of collateral. Because of imprecision and uncertainty inherent in developing estimates of future credit losses, in particular during periods of rapidly declining collateral values or increasing delinquency rates, our estimation process includes development of ranges of possible outcomes. Ranges were developed by stressing initial estimates of both frequency and severity rates. Stressing of frequency and severity assumptions is intended to model deterioration in credit quality that is difficult to predict during declining economic conditions. Future deterioration in credit quality may exceed our modeled assumptions.

Mortgage loans held for investment include loans originated by our affiliate, SCC, and purchased by HRB Bank. We have greater exposure to loss with respect to this segment of our loan portfolio as a result of historically higher delinquency rates. Therefore, we assign higher frequency rate assumptions to SCC-originated loans compared with loans originated by other third-party banks as we consider estimates of future losses. At April 30, 2013 our weighted-average frequency assumption was 7.5% for SCC-originated loans compared to 2.7% for remaining loans in the portfolio.

We consider loans 60 days past due impaired and review them individually. We record loss estimates typically based on the value of the underlying collateral. For loans over 60 days past due but less than 180 days past due or otherwise impaired, we record a loan loss allowance. The aggregate principal balance of these impaired loans totaled \$87.9 million at April 30, 2013, and the portion of our allowance for loan losses allocated to these loans totaled \$3.8 million. For loans 180 days or more past due, we charge-off the loans to the value of the collateral less costs to sell. Loans more than 180 days past due were partially charged-off at a severity rate of 51%.

Modified loans that meet the definition of a troubled debt restructuring (TDR) are also considered impaired and are reviewed individually. We record impairment equal to the difference between the principal balance of the loan and the present value of expected future cash flows discounted at the loan's effective interest rate. However, if we assess that foreclosure of a modified loan is probable, we record impairment based on the estimated fair value (typically appraised value less costs to sell) of the underlying collateral. The aggregate principal balance of TDR loans totaled \$55.1 million at April 30, 2013, and the portion of our allowance for loan losses allocated to these loans totaled \$4.9 million.

The residential mortgage industry has experienced significant adverse trends for an extended period. If adverse trends continue for a sustained period or at rates worse than modeled by us, we may be required to record additional loan loss provisions, and those losses may be significant.

Determining the allowance for loan losses for loans held for investment requires us to make estimates of losses that are highly uncertain and requires a high degree of judgment. If our underlying assumptions prove to be inaccurate, the allowance for loan losses could be insufficient to cover actual losses. Our mortgage loan portfolio is a static pool, as we are no longer originating or purchasing new mortgage loans, and we believe that factor, over time, will limit variability in our loss estimates.

During fiscal year 2012 we changed from recording a specific loan loss allowance for loans 180 days or more past due to charging-off those loans. This change had no income statement impact, but reduced the principal amount of loans outstanding and the related allowance. This change was made as a result of our change in regulators from the OTS to the OCC.

**INCOME TAXES** - Income taxes are accounted for using the asset and liability approach under U.S. GAAP. We calculate our current and deferred tax provision for the fiscal year based on estimates and assumptions that could

differ from the actual results reflected in income tax returns filed during the applicable calendar year. Adjustments based on filed returns are recorded in the appropriate periods when identified. We file a consolidated federal tax return on a calendar year basis, generally in the second fiscal quarter of the subsequent year.

We record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. We have considered taxable income in carry-back periods, historical and forecasted earnings, future taxable income, the mix of earnings in the jurisdictions in which we operate, and tax planning strategies in determining the need for a valuation allowance against our deferred tax assets. Determination of a valuation allowance for deferred tax assets requires that we make judgments about future matters that are not certain, including projections of future taxable income and evaluating potential tax-planning strategies. To the extent that actual results differ from our current assumptions, the valuation allowance will increase or decrease. In the event we determine that we could not realize all or part of our deferred tax assets in the future, an adjustment to the deferred tax assets

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would be charged to earnings in the period in which we make such determination. Likewise, if we later determine it is more likely than not that we could realize the deferred tax assets, we would reverse the applicable portion of the previously provided valuation allowance.

The income tax laws of jurisdictions in which we operate are complex and subject to different interpretations by the taxpayer and applicable government taxing authorities. Income tax returns filed by us are based on our interpretation of these rules. The amount of income taxes we pay is subject to ongoing audits by federal, state and foreign tax authorities, which may result in proposed assessments, including assessments of interest or penalties. Our estimate for the potential outcome for any uncertain tax issue is highly subjective and based on our best judgments. Actual results may differ from our current judgments due to a variety of factors, including changes in law, interpretations of law by taxing authorities that differ from our assessments, changes in the jurisdictions in which we operate and results of routine tax examinations. We believe we have adequately provided for any reasonably foreseeable outcome related to these matters. However, our future results may include favorable or unfavorable adjustments to our estimated tax liabilities in the period the assessments are made or resolved, or when statutes of limitation on potential assessments expire. As a result, our effective tax rate may fluctuate on a quarterly basis.

During fiscal year 2013, we recognized a \$33 million income tax benefit related to resolution of uncertain tax positions from prior years. As of April 30, 2013, we recorded unrecognized tax benefits on uncertain tax positions of approximately \$146 million.

**REVENUE RECOGNITION** - We have many different revenue sources, each governed by specific revenue recognition policies. Our revenue recognition policies can be found in Item 8, note 1 to the consolidated financial statements.

**FINANCIAL CONDITION**

These comments should be read in conjunction with the consolidated balance sheets and consolidated statements of cash flows included in Item 8.

**CAPITAL RESOURCES AND LIQUIDITY** - Our sources of capital and liquidity 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 our common stock, acquire businesses and repay debt. Our operations are highly seasonal and therefore generally require the use of cash to fund operating losses during the period May through mid-January.

Given the likely availability of a number of liquidity options discussed herein, including borrowing capacity under our 2012 CLOC, we believe that in the absence of any unexpected developments our existing sources of capital at April 30, 2013 are sufficient to meet our operating needs.

The following table summarizes our statements of cash flows for fiscal years 2013, 2012 and 2011. See Item 8 for the complete statements of cash flows for these periods.

Year ended April 30,	(in 000s)		
	2013	2012	2011
Net cash provided by (used in):			
Operating activities	\$497,108	\$362,049	\$512,503
Investing activities	(110,937)	) 351,867	(110,157)
Financing activities	(584,541)	) (445,062)	) (534,391)
Effects of exchange rates on cash	1,620	(2,364)	) 5,844
Net change in cash and cash equivalents	\$(196,750)	) \$266,490	\$(126,201)

**CASH FROM OPERATING ACTIVITIES** - Cash provided by operations, which consists primarily of cash received from customers, increased \$135.1 million from fiscal year 2012. The increase from the prior year was primarily due to higher net income of our continuing operations.

**Restricted Cash.** We hold certain cash balances that are restricted as to use. Cash and cash equivalents - restricted totaled \$117.8 million at April 30, 2013, and primarily consisted of cash held by HRB Bank required for regulatory

compliance and cash held by our captive insurance subsidiary that will be used to pay claims.

**CASH FROM INVESTING ACTIVITIES** - Changes in cash provided by investing activities primarily relate to the following:

**Available-for-Sale Securities.** During fiscal year 2013, HRB Bank purchased \$227.2 million in mortgage-backed securities for regulatory purposes, compared to \$256.2 million and \$138.8 million in fiscal years 2012 and 2011, respectively. Additionally, we received payments on AFS securities of \$118.4 million in fiscal year 2013 compared to \$66.4 million and \$16.8

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million in fiscal years 2012 and 2011, respectively. See additional discussion in Item 8, note 5 to the consolidated financial statements.

**Mortgage Loans Held for Investment.** We received net proceeds of \$44.0 million, \$49.1 million and \$58.5 million on our mortgage loans held for investment in fiscal years 2013, 2012 and 2011, respectively.

**Purchases of Property and Equipment.** Total cash paid for property and equipment was \$113.2 million, \$82.5 million and \$63.0 million for fiscal years 2013, 2012 and 2011, respectively. The increases were primarily a result of upgrades to our tax offices.

**Acquisitions of Businesses and Intangibles.** Total cash paid for acquisitions was \$20.7 million, \$15.3 million and \$54.2 million during fiscal years 2013, 2012 and 2011, respectively. Cash used in investing activities in fiscal year 2011 includes payments totaling \$32.6 million related to an acquisition in our former Business Services segment.

**Sales of Businesses.** We received proceeds from the sales of businesses of \$3.8 million, \$560.5 million and \$71.1 million for fiscal years 2013, 2012 and 2011, respectively. Fiscal year 2012 includes net proceeds of \$523.1 million from the sale of RSM and proceeds of \$37.4 million from the sale of ancillary businesses and offices. During fiscal year 2013, we sold 9 tax offices to franchisees, compared to 83 tax offices in fiscal year 2012, and 280 in fiscal year 2011. The majority of these sales were financed through affiliate loans.

**Loans Made to Franchisees.** Loans made to franchisees totaled \$70.8 million, \$46.2 million and \$92.5 million for fiscal years 2013, 2012 and 2011, respectively. We received payments from franchisees totaling \$83.4 million, \$56.6 million and \$57.6 million, respectively. These amounts include both the financing of sales of tax offices and short-term revolving loans made to franchisees to fund off-season operations.

**Company-Owned Life Insurance.** During fiscal year 2013 we terminated various company-owned life insurance policies and received cash proceeds totaling \$81.1 million.

**CASH FROM FINANCING ACTIVITIES** - Changes in cash used in financing activities primarily relate to the following:

**Short-Term Borrowings.** While we use commercial paper borrowings to fund our off-season losses and cover our seasonal working capital needs, we had no commercial paper borrowings outstanding as of April 30, 2013 or 2012. Our commercial paper borrowings peaked at \$496.7 million in January of the current year.

**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. Proceeds of these Senior Notes and other cash balances were used to repay the \$600.0 million Senior Notes which were due in January 2013. On November 26, 2012 we redeemed our \$600.0 million Senior Notes at a price of \$623.0 million. See additional discussion in Item 8, note 9 to the consolidated financial statements.

**FHLB Borrowings.** HRB Bank had historically obtained borrowings from the FHLB in accordance with regulatory and capital requirements. During fiscal years 2012 and 2011, we had net repayments of \$25.0 million and \$50.0 million, respectively. We had no repayments or borrowings during fiscal year 2013.

**Customer Banking Deposits.** Changes in customer banking deposits resulted in a provision of cash of \$103.6 million in fiscal year 2013, compared to a use of cash totaling \$26.1 million and \$11.4 million in fiscal years 2012 and 2011, respectively. The change over the prior year is primarily due to the delay in the tax season and IRS fundings to debit cards in fiscal year 2013, resulting in higher deposits. These deposits are held by HRB Bank.

**Dividends.** We have consistently paid quarterly dividends. Dividends paid totaled \$217.2 million, \$208.8 million and \$186.8 million in fiscal years 2013, 2012 and 2011, respectively. During fiscal year 2012, our Board of Directors approved an increase of our quarterly cash dividend from \$0.15 per share to \$0.20 per share. Although we have historically paid dividends and currently plan to continue to do so, there can be no assurances that circumstances will not change in the future that could affect our ability or decisions to pay dividends.

**Repurchase and Retirement of Common Stock.** During fiscal years 2013, 2012 and 2011, we purchased and immediately retired 21.3 million shares, 14.6 million shares and 19.0 million shares, respectively, of our common stock at a cost of \$315.0 million, \$200.0 million and \$279.9 million, respectively. Although we have historically from time to time repurchased and retired common stock and our Board of Directors has approved an extension of our current share repurchase program as discussed below, there can be no assurances that circumstances will not change in the future that could affect our ability or decisions to repurchase and retire common stock.

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 April 30, 2013.



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Issuances of Common Stock. Proceeds from the issuance of common stock in accordance with our stock-based compensation plans totaled \$25.1 million, \$12.3 million and \$0.4 million in fiscal years 2013, 2012 and 2011, respectively.

HRB BANK - At April 30, 2013, HRB Bank had cash balances of \$556.7 million. Dividends of this cash balance would be subject to regulatory approval and it is therefore not available for general corporate purposes.

Block Financial LLC (Block Financial) typically makes capital contributions to HRB Bank to help meet its capital requirements. Although no such contributions were required in fiscal year 2013, Block Financial made capital contributions to HRB Bank of \$400.0 million and \$235.0 million during fiscal years 2012 and 2011, respectively. Historically, capital contributions by Block Financial have been repaid as dividends or a return of capital by HRB Bank as capital requirements decline. A return of capital or dividend paid by HRB Bank must be approved by the OCC and the Federal Reserve. Although such payments have been approved on occasion by our regulators in the past, there is no assurance that they will continue to be in the future. In addition, Block Financial may elect to maintain higher capital levels at HRB Bank. HRB Bank paid dividends and returned capital of \$400.0 million during fiscal year 2012 and \$262.5 million during fiscal year 2011, comprised of \$37.5 million in real estate owned (REO) properties and loans and \$225.0 million in cash.

As discussed previously, we are in the process of evaluating alternative means of ceasing to be an SLHC. Our evaluation of alternatives is ongoing and we cannot predict the timing, the circumstances, or the likelihood of us ceasing to be regulated as an SLHC.

See additional discussion of regulatory and capital requirements of HRB Bank in Item 1A, "Risk Factors" and in "Regulatory Environment" below.

ASSETS HELD BY FOREIGN SUBSIDIARIES - At April 30, 2013, cash and short-term investment balances of \$273.1 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 year, 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, and resulted in approximately \$6 million of income tax upon repatriation.

**BORROWINGS**

The following table provides ratings for debt issued by Block Financial as of April 30, 2013 and 2012:

As of	April 30, 2013			April 30, 2012		
	Short-term	Long-term	Outlook	Short-term	Long-term	Outlook
Moody's	P-2	Baa2	Negative	P-2	Baa2	Stable
S&P	A-2	BBB	Negative	A-2	BBB	Negative

During fiscal year 2013, we issued \$500.0 million in Senior Notes, the proceeds of which were used towards repayment of our \$600.0 million Senior Notes that were due in January 2013. Additionally, we entered into a new CLOC agreement. See additional discussion in Item 8, note 9 to the consolidated financial statements.

Borrowing needs in our Canadian operations are typically funded by our U.S. operations. To mitigate foreign currency exchange rate risk, in fiscal years 2012 and 2011 we entered into foreign exchange forward contracts. We did not enter into any similar contracts in fiscal year 2013, and there were no forward contracts outstanding as of April 30, 2013. We do not currently expect to enter into any similar contracts in the future.

**CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS**

A summary of our obligations to make future payments as of April 30, 2013, is as follows:

(in 000s)

	Total	Less Than 1 Year	1 - 3 Years	4 - 5 Years	After 5 Years
Long-term debt (including interest)	\$1,188,520	\$48,000	\$464,898	\$55,000	\$620,622
Customer deposits (including interest)	942,688	940,771	1,570	347	—

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Contingent acquisition payments	11,277	9,533	1,744	—	—
Capital lease obligations	9,702	722	1,545	1,807	5,628
Operating leases	420,556	178,068	200,639	34,261	7,588
Total contractual cash obligations	\$2,572,743	\$1,177,094	\$670,396	\$91,415	\$633,838

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The table above does not reflect unrecognized tax benefits of approximately \$146 million due to the high degree of uncertainty regarding the future cash outflows associated with these amounts.

See discussion of contractual obligations and commitments in Item 8, within the notes to the consolidated financial statements.

### REGULATORY ENVIRONMENT

The Holding Companies are SLHCs and HRB Bank is a federal savings bank. The Federal Reserve is the primary federal regulator of our Holding Companies and the OCC is the primary federal regulator of HRB Bank.

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.

See discussion in Item 1, "Regulation and Supervision - Bank and Holding Companies," and in Item 1A, "Risk Factors," for additional information on regulatory capital requirements for SLHCs, including the proposed new capital requirements for SLHCs published by the Federal Reserve in August 2012.

All savings associations are subject to regulatory capital requirements. As of March 31, 2013, our most recent Call Report filing with the OCC, HRB Bank was a "well capitalized" institution. See Item 1, "Regulation and Supervision - Bank and Holding Companies," and Item 8, note 21 to the consolidated financial statements, for additional discussion of HRB Bank's regulatory capital requirements.

H&R Block, Inc. is a legal entity separate and distinct from its indirect subsidiary, HRB Bank. Various federal and state statutory and regulatory provisions limit the amount of dividends HRB Bank may pay without regulatory approval. The ability of HRB Bank to pay dividends in the future is currently, and could be further, influenced by bank regulatory policies and capital guidelines. See Item 1, "Regulation and Supervision - Bank and Holding Companies," for a more detailed discussion of restrictions on payment of dividends.

The federal government, various state, local, provincial and foreign governments, and some self-regulatory organizations have enacted statutes and ordinances, or adopted rules and regulations, regulating aspects of our business. These aspects include, but are not limited to, commercial income tax return preparers, income tax courses, the electronic filing of income tax returns, the offering of RACs, loan originations and assistance in loan originations, mortgage lending, privacy, consumer protection, franchising, sales methods and banking. We determine the applicability of such statutes, ordinances, rules and regulations (collectively, Laws) and work to comply with those Laws that are applicable to us or our services or products.

From time to time in the ordinary course of business, we receive inquiries from governmental and self-regulatory agencies regarding the applicability of Laws to our services and products. In response to past inquiries, we have demonstrated that we comply with such Laws, convinced the authorities that such Laws were not applicable or that compliance already exists, or modified our activities in the applicable jurisdiction to avoid the application of all or certain parts of such Laws. We believe the past resolution of such inquiries and our ongoing compliance with Laws has not had a material effect on our consolidated financial statements. We cannot predict what effect future Laws, changes in interpretations of existing Laws or the results of future regulator inquiries with respect to the applicability of Laws may have on our consolidated financial position, results of operations and cash flows. See additional discussion of legal matters in Item 8, note 18 to the consolidated financial statements.

### 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 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 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 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.

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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 gains and losses on extinguishment of debt.

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 EBITDA and adjusted EBITDA:

	(in 000s)			
Year ended April 30,	2013	2012	2011	
Net income from continuing operations - reported	\$465,158	\$345,968	\$392,547	
Add back:				
Income taxes	236,853	230,102	235,156	
Interest expense	79,957	92,089	94,183	
Depreciation and amortization	92,407	89,157	91,102	
	409,217	411,348	420,441	
EBITDA from continuing operations	874,375	757,316	812,988	
Adjustments:				
Loss contingencies - litigation	(4,579	) 22,961	16,014	
Impairment of goodwill and intangible assets	3,581	11,389	22,700	
Severance	4,785	32,474	29,598	
Loss on extinguishment of debt	5,790	—	—	
Gain on sales of tax offices	(1,272	) (16,601	) (45,101	)
	8,305	50,223	23,211	
Adjusted EBITDA from continuing operations	\$882,680	\$807,539	\$836,199	

The following is a reconciliation of adjusted pretax income:

	(in 000s)			
Year ended April 30,	2013	2012	2011	
Pretax income from continuing operations - reported	\$702,011	\$576,070	\$627,703	
Adjustments:				
Loss contingencies - litigation	(4,579	) 22,961	16,014	
Impairment of goodwill and intangible assets	3,581	11,389	22,700	
Severance	4,785	32,474	29,598	
Loss on extinguishment of debt	5,790	—	—	
Gain on sales of tax offices	(1,272	) (16,601	) (45,101	)
	8,305	50,223	23,211	
Pretax income from continuing operations - adjusted	\$710,316	\$626,293	\$650,914	

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## STATISTICAL DISCLOSURE BY BANK HOLDING COMPANIES

This section presents information required by the SEC's Industry Guide 3, "Statistical Disclosure by Bank Holding Companies." The tables in this section include HRB Bank information only.

**DISTRIBUTION OF ASSETS, LIABILITIES AND SHAREHOLDERS' EQUITY; INTEREST RATES AND INTEREST DIFFERENTIAL** – The following table presents average balance data and interest income and expense data for our banking operations, as well as the related interest yields and rates for fiscal years 2013, 2012 and 2011: (dollars in 000s)

Year ended April 30,	2013			2012			2011			
	Average Balance	Interest Income/Expense	Average Yield/Cost	Average Balance	Interest Income/Expense	Average Yield/Cost	Average Balance	Interest Income/Expense	Average Yield/Cost	
<b>Interest-earning assets:</b>										
Mortgage loans, net	\$372,339	\$16,556	4.45 %	\$448,431	\$20,322	4.53 %	\$545,052	\$24,693	4.53 %	
Federal funds sold	1,192	1	0.08 %	2,315	1	0.04 %	2,649	3	0.10 %	
Credit cards	8,119	3,311	40.78 %	—	—	— %	—	—	— %	
Emerald Advance <sup>(1)</sup>	91,338	30,997	33.94 %	87,711	28,982	33.04 %	141,127	94,300	35.21 %	
Available-for-sale securities	380,055	6,791	1.79 %	250,329	4,178	1.67 %	22,243	174	0.78 %	
FHLB stock	1,879	—	— %	3,259	113	3.47 %	5,953	171	2.88 %	
Cash and due from banks	690,396	1,601	0.23 %	732,164	1,806	0.25 %	930,666	2,338	0.25 %	
	1,545,318	\$59,257	3.83 %	1,524,209	\$55,402	3.63 %	1,647,690	\$121,679	7.38 %	
<b>Non-interest-earning assets</b>	27,974			56,426			57,899			
<b>Total HRB Bank assets</b>	\$1,573,292			\$1,580,635			\$1,705,589			
<b>Interest-bearing liabilities:</b>										
Customer deposits	\$735,368	\$5,660	0.77 %	\$705,593	\$6,735	0.95 %	\$830,597	\$8,488	1.02 %	
FHLB borrowing	—	—	— %	23,770	572	2.41 %	72,534	1,526	2.10 %	
	735,368	\$5,660	0.77 %	729,363	\$7,307	1.00 %	903,131	\$10,014	1.11 %	
<b>Non-interest-bearing liabilities</b>	364,932			363,990			366,666			
<b>Total liabilities</b>	1,100,300			1,093,353			1,269,797			
<b>Total shareholders' equity</b>	472,992			487,282			435,792			
<b>Total liabilities and shareholders' equity</b>	\$1,573,292			\$1,580,635			\$1,705,589			
<b>Net yield on interest-earning assets <sup>(1)</sup></b>		\$53,597	3.47 %		\$48,095	3.16 %		\$111,665	6.78 %	

(1) Includes all interest income related to EA activities. Amounts recognized as interest income also include certain fees, which are amortized into interest income over the life of the loan, of \$48.5 million for fiscal year 2011.

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The following table presents the rate/volume variance in interest income and expense for the last two fiscal years:  
(in 000s)

Year ended April 30,	2013				2012			
	Total Change in Interest Income/Expense	Change Due to Rate	Change Due to Volume	Change Due to	Total Change in Interest Income/Expense	Change Due to Rate	Change Due to Volume	Change Due to
Interest income:								
Loans, net <sup>(1)</sup>	\$1,560	\$ 3,052	\$(60 )	\$(1,432 )	\$(69,700 )	\$(46,549 )	\$(5 )	\$(23,146)
Available-for-sale securities	2,613	147	300	2,166	4,004	2,027	198	1,779
Federal funds sold	—	(1 )	1	—	(2 )	—	(2 )	—
FHLB stock	(113 )	50	(118 )	(45 )	(58 )	(15 )	35	(78 )
Cash & due from banks	(205 )	49	(146 )	(108 )	(521 )	(25 )	—	(496 )
	\$3,855	\$ 3,297	\$(23 )	\$581	\$(66,277 )	\$(44,562 )	\$226	\$(21,941)
Interest expense:								
Customer deposits	\$(1,075 )	\$(52 )	\$(1,286 )	\$263	\$(1,753 )	\$(102 )	\$(141 )	\$(1,510 )
FHLB borrowings	(572 )	574	(573 )	(573 )	(954 )	(155 )	225	(1,024 )
	\$(1,647 )	\$ 522	\$(1,859 )	\$(310 )	\$(2,707 )	\$(257 )	\$84	\$(2,534 )

<sup>(1)</sup> Includes mortgage loans held for investment, EAs and credit cards. Non-accruing loans have been excluded.

INVESTMENT PORTFOLIO – The following table presents the cost basis and fair value of HRB Bank's investment portfolio at April 30, 2013, 2012 and 2011:

(in 000s)

As of April 30,	2013		2012		2011	
	Cost Basis	Fair Value	Cost Basis	Fair Value	Cost Basis	Fair Value
Mortgage-backed securities	\$476,450	\$482,378	\$361,184	\$366,683	\$157,970	\$158,177
Federal funds sold	1,169	1,169	1,586	1,586	8,727	8,727
FHLB stock	1,861	1,861	1,879	1,879	3,315	3,315
	\$479,480	\$485,408	\$364,649	\$370,148	\$170,012	\$170,219

The following table shows the cost basis, scheduled maturities and average yields for HRB Bank's investment portfolio at April 30, 2013:

(dollars in 000s)

	Cost Basis	Less Than One Year		After Ten Years		Total		
		Balance Due	Weighted Average Yield	Balance Due	Weighted Average Yield	Balance Due	Weighted Average Yield	
Mortgage-backed securities	\$476,450	\$—	—	\$476,450	1.79 %	\$476,450	1.79 %	
Federal funds sold	1,169	1,169	0.08 %	—	—	1,169	0.08 %	
FHLB stock	1,861	1,861	— %	—	—	1,861	— %	
	\$479,480	\$3,030		\$476,450		\$479,480		





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LOAN PORTFOLIO AND SUMMARY OF LOAN LOSS EXPERIENCE – The following table shows the composition of HRB Bank’s mortgage loan portfolio and information on delinquent loans:

(in 000s)

As of April 30,	2013	2012	2011	2010	2009
Residential real estate mortgages	\$ 349,841	\$ 428,568	\$ 569,610	\$ 683,452	\$ 821,583
Home equity lines of credit	170	174	183	232	254
	\$ 350,011	\$ 428,742	\$ 569,793	\$ 683,684	\$ 821,837
Loans and TDRs on non-accrual	\$ 89,230	\$ 108,839	\$ 155,645	\$ 185,209	\$ 222,382
Loans past due 90 days or more	74,992	99,044	149,501	153,703	121,685
Total TDRs	55,061	71,949	106,328	144,977	160,741
Interest income recorded on non-accrual loans	4,025	5,682	6,311	7,452	4,927

Concentrations of loans to borrowers located in a single state 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. The table below presents outstanding loans by state, for states with a concentration of 5% or greater, for our portfolio of mortgage loans held for investment as of April 30, 2013:

(dollars in 000s)

	Loans Purchased from SCC	Loans Purchased from Other Parties	Total	Percent of Total	Delinquency Rate (30+ Days)	
Florida	\$ 18,359	\$ 47,966	\$ 66,325	19	% 15	%
New York	57,949	7,619	65,568	19	% 51	%
California	30,423	8,703	39,126	11	% 17	%
Wisconsin	1,388	28,457	29,845	9	% 5	%
All others	89,889	59,258	149,147	43	% 20	%
Total	\$ 198,008	\$ 152,003	\$ 350,011	100	%	

A rollforward of HRB Bank’s allowance for loss on mortgage loans is as follows:

(dollars in 000s)

Year ended April 30,	2013	2012	2011	2010	2009	
Balance at beginning of the year	\$ 26,444	\$ 90,487	\$ 93,535	\$ 84,073	\$ 45,401	
Provision	13,250	23,875	35,200	47,750	63,897	
Recoveries	3,253	252	272	88	54	
Charge-offs and transfers	(28,633 )	( 88,170 )	( 38,520 )	( 38,376 )	( 25,279 )	
Balance at end of the year	\$ 14,314	\$ 26,444	\$ 90,487	\$ 93,535	\$ 84,073	
Ratio of net charge-offs to average loans outstanding during the year	6.37	% 19.61	% 5.96	% 4.95	% 2.80	%

The increase in charge-offs during fiscal year 2012 was a result of the charge-off of \$64.1 million in mortgage loans more than 180 days past due in accordance with OCC regulations, as discussed in Item 8, note 1 to the consolidated financial statements.

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DEPOSITS – The following table shows HRB Bank’s average deposit balances and the average rate paid on those deposits for fiscal years 2013, 2012 and 2011:

(dollars in 000s)

Year ended April 30,	2013		2012		2011			
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate		
Money market and savings	\$331,819	0.59	% \$306,053	0.71	% \$279,162	0.81	%	
Interest-bearing checking accounts	12,027	0.17	% 14,871	0.27	% 10,782	0.87	%	
IRAs	322,078	0.91	% 334,022	1.00	% 353,902	1.01	%	
Certificates of deposit	69,444	1.08	% 50,647	2.33	% 186,742	1.36	%	
	735,368	0.77	% 705,593	0.95	% 830,588	1.02	%	
Non-interest-bearing deposits	330,727		320,566		310,781			
	\$1,066,095		\$1,026,159		\$1,141,369			

RATIOS – The following table shows certain of HRB Bank’s key ratios for fiscal years 2013, 2012 and 2011:

Year ended April 30,	2013	2012	2011	
Return on average assets	3.0	% 3.1	% 1.4	%
Net return on equity	10.2	% 10.0	% 5.4	%
Equity to assets ratio	33.9	% 34.8	% 30.8	%

SHORT-TERM BORROWINGS– The following table shows HRB Bank’s short-term borrowings for fiscal years 2013, 2012 and 2011:

(dollars in 000s)

Year ended April 30,	2013		2012		2011			
	Balance	Rate	Balance	Rate	Balance	Rate		
Ending balance of FHLB advances	\$—	—	% \$—	—	% \$25,000	2.36	%	
Average balance of FHLB advances	—	—	% 23,770	2.41	% 72,534	2.10	%	

We did not borrow from the FHLB during fiscal year 2013. The maximum amount of FHLB advances outstanding during fiscal years 2012 and 2011 was \$25.0 million and \$75.0 million, respectively.

**NEW ACCOUNTING PRONOUNCEMENTS**

See Item 8, note 1 to the consolidated financial statements under “Intangible Assets and Goodwill” for a discussion of recently issued accounting pronouncements.

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK  
INTEREST RATE RISK**

General. We have a formal investment policy that strives to minimize the market risk exposure of our cash equivalents and available-for-sale (AFS) securities, which are primarily affected by credit quality and movements in interest rates. The guidelines in our investment policy focus on managing liquidity and preserving principal and earnings.

Our cash equivalents are primarily held for liquidity purposes and are comprised of high quality, short-term investments, including money market funds. Because our cash and cash equivalents have a relatively short maturity, our portfolio’s market value is relatively insensitive to interest rate changes.

Our AFS securities consist primarily of mortgage-backed securities held to meet the regulatory requirements of HRB Bank.

As our short-term borrowings are generally seasonal, interest rate risk typically increases through our third fiscal quarter and declines to zero by fiscal year-end. While the market value of short-term borrowings is relatively insensitive to interest rate changes, interest expense on short-term borrowings will increase and decrease with changes in the underlying short-term interest rates.

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Our long-term debt at April 30, 2013, consists primarily of fixed-rate Senior Notes; therefore, a change in interest rates would have no impact on consolidated pretax earnings until these notes mature or are refinanced. The fixed-rate interest payable on our Senior Notes is subject to adjustment based upon our credit ratings. See Item 8, note 9 to the consolidated financial statements.

Under criteria published by the OCC, HRB Bank's overall interest rate risk exposure at March 31, 2013, the most recent date an evaluation was completed, was characterized as "minimal." We actively manage our interest rate risk positions. As interest rates change, we will adjust our strategy and mix of assets and liabilities to optimize our position.

**Mortgage Loans Held for Investment.** At April 30, 2013, residential mortgage loans held for investment consisted of a mix of 45% fixed-rate loans and 55% adjustable-rate loans. These loans are sensitive to changes in interest rates as well as expected prepayment levels. As interest rates increase, fixed-rate residential mortgages tend to exhibit lower prepayments. The opposite is true in a falling rate environment. When mortgage loans prepay, mortgage origination costs are written off. Depending on the timing of the prepayment, the write-offs of mortgage origination costs may result in lower than anticipated yields.

**Customer Deposits and FHLB Advances.** HRB Bank's liabilities consist primarily of transactional deposit relationships, such as prepaid debit card accounts and checking accounts. Other liabilities typically include money market accounts, certificates of deposit and collateralized borrowings from the FHLB. Money market accounts re-price as interest rates change. Certificates of deposit re-price over time depending on maturities. FHLB advances generally have fixed rates ranging from one day through multiple years. We had no FHLB advances outstanding as of April 30, 2013.

**FOREIGN EXCHANGE RATE RISK**

Our operations in international markets are exposed to movements in currency exchange rates. The currencies primarily involved are the Canadian dollar and the Australian dollar. We translate revenues and expenses related to these operations at the average of exchange rates in effect during the period. Assets and liabilities of foreign subsidiaries are translated into U.S. dollars at exchange rates prevailing at the end of the year. Translation adjustments are recorded as a separate component of other comprehensive income in stockholders' equity. Translation of financial results into U.S. dollars does not presently materially affect, and has not historically materially affected, our consolidated financial results, although such changes do affect the year-to-year comparability of the operating results in U.S. dollars of our international businesses. We estimate a 10% change in foreign exchange rates by itself would impact consolidated net income in fiscal years 2013 and 2012 by \$4.7 million and \$5.1 million, respectively, and cash balances at April 30, 2013 and 2012 by \$27.5 million and \$10.2 million, respectively.

During previous fiscal years, we used foreign exchange forward contracts to mitigate foreign currency exchange rate risk as we funded our Canadian operations. We did not utilize exchange forward contracts in fiscal year 2013 and do not currently expect to enter into any similar contracts in the future. At April 30, 2013, our Canadian operations had \$257.1 million of U.S. dollar denominated liabilities to various U.S. subsidiaries, which are exposed to exchange rate risk. Foreign currency gains on these balances totaled \$0.2 million for fiscal year 2013 are included in other income, net on our consolidated statements of income.

**SENSITIVITY ANALYSIS**

The sensitivities of certain financial instruments to changes in interest rates as of April 30, 2013 and 2012 are presented below. The following table represents hypothetical instantaneous and sustained parallel shifts in interest rates and should not be relied on as an indicator of future expected results. The impact of a change in interest rates on other factors, such as delinquency and prepayment rates, is not included in the analysis below.

(in 000s)

As of:	Carrying Value	Basis Point Change					
		-300	-200	-100	+100	+200	+300
April 30, 2013:							
Mortgage loans held for investment	\$338,789	\$5,400	\$5,399	\$4,934	\$(4,769)	\$(10,654)	\$(18,828)
	482,378	3,450	3,472	4,067	(17,027)	(39,469)	(59,975)

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Mortgage-backed securities

April 30, 2012:

Mortgage loans held for investment	\$406,201	\$28,689	\$26,403	\$13,610	\$(11,349 )	\$(23,845 )	\$(35,659 )
Mortgage-backed securities	366,683	4,996	4,989	2,633	(2,477 )	(15,008 )	(29,657 )

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA  
DISCUSSION OF FINANCIAL RESPONSIBILITY

H&R Block's management is responsible for the integrity and objectivity of the information contained in this document. Management is responsible for the consistency of reporting this information and for ensuring that accounting principles generally accepted in the United States are used. In discharging this responsibility, management maintains an extensive program of internal audits and requires members of management to certify financial information within their scope of management. Our system of internal control over financial reporting also includes formal policies and procedures, including a Code of Business Ethics and Conduct that reinforces our commitment to ethical business conduct and is designed to encourage our employees and directors to act with high standards of integrity in all that they do.

The Audit Committee of the Board of Directors, composed solely of independent outside directors, meets periodically with management, the independent auditor and the Director, Audit Services (our chief internal auditor) to review matters relating to our financial statements, internal audit activities, internal accounting controls and non-audit services provided by the independent auditors. The independent auditor and the Director, Audit Services have full access to the Audit Committee and meet, both with and without management present, to discuss the scope and results of their audits, including internal control, audit and financial matters.

Deloitte & Touche LLP audited our consolidated financial statements for fiscal years 2013, 2012 and 2011. The audits were conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States).

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 12a-15(f). Under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in "Internal Control — Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) as of April 30, 2013.

Based on our assessment, management concluded that as of April 30, 2013, the Company's internal control over financial reporting was effective based on the criteria set forth by COSO. The Company's external auditor, Deloitte & Touche LLP, an independent registered public accounting firm, has issued an audit report on the effectiveness of the Company's internal control over financial reporting.

/s/ William C. Cobb  
William C. Cobb  
President and Chief Executive Officer

/s/ Gregory J. Macfarlane  
Gregory J. Macfarlane  
Chief Financial Officer

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of  
H&R Block, Inc.

Kansas City, Missouri

We have audited the accompanying consolidated balance sheets of H&R Block, Inc. and subsidiaries (the "Company") as of April 30, 2013 and 2012, and the related consolidated statements of income and comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended April 30, 2013. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of H&R Block, Inc. and subsidiaries as of April 30, 2013 and 2012, and the results of their operations and their cash flows for each of the three years in the period ended April 30, 2013, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of April 30, 2013, based on the criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated June 26, 2013 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP

Kansas City, Missouri

June 26, 2013

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of  
H&R Block, Inc.

Kansas City, Missouri

We have audited the internal control over financial reporting of H&R Block, Inc. and subsidiaries (the "Company") as of April 30, 2013, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of April 30, 2013, based on the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended April 30, 2013 of the Company and our report dated June 26, 2013 expressed an unqualified opinion on those financial statements.

/s/ Deloitte & Touche LLP

Kansas City, Missouri

June 26, 2013



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AND COMPREHENSIVE INCOME

(in 000s, except per share amounts)

Year ended April 30,	2013	2012	2011
<b>REVENUES:</b>			
Service revenues	\$2,443,000	\$2,434,307	\$2,428,104
Product and other revenues	364,114	359,664	383,216
Interest income	98,829	99,800	133,660
	2,905,943	2,893,771	2,944,980
<b>OPERATING EXPENSES:</b>			
Cost of revenues:			
Compensation and benefits	769,161	828,773	830,980
Occupancy and equipment	354,612	381,200	385,515
Provision for bad debt and loan losses	90,685	92,157	174,626
Interest	79,957	92,089	94,183
Depreciation and amortization of property and equipment	68,192	61,390	61,557
Other	242,181	246,086	229,921
	1,604,788	1,701,695	1,776,782
Impairment of goodwill	—	7,409	22,700
Selling, general and administrative	604,469	618,375	529,159
	2,209,257	2,327,479	2,328,641
Operating income	696,686	566,292	616,339
Other income, net	5,325	9,778	11,364
Income from continuing operations before income taxes	702,011	576,070	627,703
Income taxes	236,853	230,102	235,156
Net income from continuing operations	465,158	345,968	392,547
Net income (loss) from discontinued operations	(31,210)	) (80,036)	) 13,563
<b>NET INCOME</b>	<b>\$433,948</b>	<b>\$265,932</b>	<b>\$406,110</b>
<b>BASIC EARNINGS (LOSS) PER SHARE:</b>			
Continuing operations	\$1.70	\$1.16	\$1.27
Discontinued operations	(0.11)	) (0.27)	) 0.04
Consolidated	\$1.59	\$0.89	\$1.31
<b>DILUTED EARNINGS (LOSS) PER SHARE:</b>			
Continuing operations	\$1.69	\$1.16	\$1.27
Discontinued operations	(0.11)	) (0.27)	) 0.04
Consolidated	\$1.58	\$0.89	\$1.31
<b>COMPREHENSIVE INCOME:</b>			
Net income	\$433,948	\$265,932	\$406,110
Unrealized gains on securities, net of taxes:			
Unrealized holding gains arising during the year, net of taxes of \$229, \$2,121 and \$58	269	3,192	73
Reclassification adjustment for gains (losses) included in income, net of taxes of \$71, \$58 and (\$133)	(104)	) (94)	) 55
Change in foreign currency translation adjustments	(1,760)	) (2,186)	) 9,427
Other comprehensive income (loss)	(1,595)	) 912	9,555
Comprehensive income	\$432,353	\$266,844	\$415,665

See accompanying notes to consolidated financial statements.



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CONSOLIDATED BALANCE SHEETS	(in 000s, except share and per share amounts)	
	2013	2012
As of April 30,		
<b>ASSETS</b>		
Cash and cash equivalents	\$1,747,584	\$1,944,334
Cash and cash equivalents — restricted	117,837	48,100
Receivables, less allowance for doubtful accounts of \$50,399 and \$44,589	206,835	193,858
Prepaid expenses and other current assets	390,087	314,702
Total current assets	2,462,343	2,500,994
Mortgage loans held for investment, less allowance for loan losses of \$14,314 and \$26,540	338,789	406,201
Investments in available-for-sale securities	486,876	371,315
Property and equipment, at cost less accumulated depreciation and amortization of \$420,318 and \$529,841	267,880	240,772
Intangible assets, net	284,439	276,664
Goodwill	434,782	427,566
Other assets	262,670	426,055
Total assets	\$4,537,779	\$4,649,567
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>LIABILITIES:</b>		
Customer banking deposits	\$936,464	\$827,549
Accounts payable, accrued expenses and other current liabilities	523,921	567,079
Accrued salaries, wages and payroll taxes	134,970	163,992
Accrued income taxes	416,128	336,374
Current portion of long-term debt	722	631,434
Total current liabilities	2,012,205	2,526,428
Long-term debt	905,958	409,115
Other noncurrent liabilities	356,069	388,132
Total liabilities	3,274,232	3,323,675
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>STOCKHOLDERS' EQUITY:</b>		
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
Convertible preferred stock, no par, stated value \$0.01 per share, 500,000 shares authorized	—	—
Additional paid-in capital	752,483	796,784
Accumulated other comprehensive income	10,550	12,145
Retained earnings	1,333,445	2,523,997
Less treasury shares, at cost	(836,097	) (2,011,013
Total stockholders' equity	1,263,547	1,325,892
Total liabilities and stockholders' equity	\$4,537,779	\$4,649,567

See accompanying notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS			(in 000s)
Year ended April 30,	2013	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income	\$433,948	\$265,932	\$406,110
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	92,407	103,576	121,633
Provision for bad debt and loan losses	90,685	97,365	180,951
Provision for deferred taxes	(21,846)	) 13,227	9,432
Stock-based compensation	15,293	14,968	14,500
Impairment of goodwill and intangible assets	3,581	113,951	22,700
Changes in assets and liabilities, net of acquisitions:			
Cash and cash equivalents — restricted	(69,737)	) (2,917)	) (14,033)
Receivables	(72,662)	) 49,755	) (105,708)
Prepaid expenses and other current assets	(3,465)	) 538	) (37,892)
Other noncurrent assets	78,778	25,552	(98,818)
Accounts payable, accrued expenses and other current liabilities	(37,017)	) (45,114)	) (111,727)
Accrued salaries, wages and payroll taxes	(28,861)	) (58,210)	) 56,009
Accrued income taxes	88,459	(92,843)	) 5,962
Other noncurrent liabilities	(71,998)	) (88,870)	) 119,428
Other, net	(457)	) (34,861)	) (56,044)
Net cash provided by operating activities	497,108	362,049	512,503
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchases of available-for-sale securities	(227,177)	) (256,173)	) (138,824)
Sales, maturities and payments received on available-for-sale securities	118,411	66,382	16,797
Principal payments on mortgage loans held for investment, net	44,031	49,142	58,471
Purchases of property and equipment, net	(113,239)	) (82,457)	) (62,959)
Payments made for acquisitions of businesses and intangibles, net	(20,742)	) (15,258)	) (54,171)
Proceeds from sale of businesses, net	3,785	560,499	71,083
Franchise loans:			
Loans funded	(70,807)	) (46,246)	) (92,455)
Payments received	83,445	56,591	57,552
Surrender of company-owned life insurance policies	81,125	—	—
Other, net	(9,769)	) 19,387	34,349
Net cash provided by (used in) investing activities	(110,937)	) 351,867	(110,157)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Repayments of commercial paper	(1,214,238)	) (664,167)	) (4,818,766)
Proceeds from issuance of commercial paper	1,214,238	664,167	4,818,766
Repayments of long-term debt	(636,621)	) —	—
Proceeds from issuance of long-term debt	497,185	—	—
Repayments of FHLB borrowings	—	(25,000)	) (50,000)
Customer banking deposits, net	103,608	(26,091)	) (11,440)
Dividends paid	(217,201)	) (208,801)	) (186,802)
Repurchase of common stock, including shares surrendered	(340,413)	) (180,592)	) (283,534)
Proceeds from exercise of stock options, net	25,139	12,275	424
Other, net	(16,238)	) (16,853)	) (3,039)
Net cash used in financing activities	(584,541)	) (445,062)	) (534,391)
Effects of exchange rates on cash	1,620	(2,364)	) 5,844

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Net increase (decrease) in cash and cash equivalents	(196,750 )	266,490	(126,201 )
Cash and cash equivalents at beginning of the year	1,944,334	1,677,844	1,804,045
Cash and cash equivalents at end of the year	\$1,747,584	\$1,944,334	\$1,677,844
SUPPLEMENTARY CASH FLOW DATA:			
Income taxes paid, net	\$155,617	\$218,444	\$244,917
Interest paid on borrowings	73,559	69,681	73,791
Interest paid on deposits	5,665	6,843	8,541
Transfers of foreclosed loans to other assets	10,357	10,308	16,463
Accrued additions to property and equipment	4,261	801	1,269
Accrued purchase of common stock	—	22,484	—
See accompanying notes to consolidated financial statements.			

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EQUITY

(amounts in 000s, except per share amounts)

	Common Stock		Convertible Preferred Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock		Total Stockholders' Equity
	Shares	Amount	Shares	Amount				Shares	Amount	
Balances at May 1, 2010	431,391	\$4,314	—	\$—	\$832,604	\$ 1,678	\$2,658,586	(108,085)	\$(2,056,552)	\$1,440,630
Net income	—	—	—	—	—	—	—	—	—	—