H&R BLOCK INC
Form 10-Q
March 08, 2019
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)

þ	QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the quarterly period ended January 31, 2019
	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 1-06089
H&R Block, Inc.
(Exact name of registrant as specified in its charter)

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files).
Yes þ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one)
Large accelerated filer þ Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨ Emerging growth company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

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

The number of shares outstanding of the registrant's Common Stock, without par value, at the close of business on February 28, 2019: 203,293,118 shares.

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Form 10-Q for the Period Ended January 31, 2019
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PART I FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

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

	Three months ended January 31, 2019	Three months ended January 31, 2018	Nine months ended January 31, 2019	Nine months ended January 31, 2018
REVENUES:				
Service revenues	$373,659	$388,771	$627,786	$641,389
Royalty, product and other revenues	94,725	99,655	134,652	125,693
	468,384	488,426	762,438	767,082
OPERATING EXPENSES:				
Costs of revenues	421,026	416,601	893,401	884,335
Selling, general and administrative	185,458	169,098	404,517	381,193
Total operating expenses	606,484	585,699	1,297,918	1,265,528
Other income (expense), net	2,269	1,028	11,275	3,259
Interest expense on borrowings	(22,833)	(24,560)	(65,214)	(67,102)
Loss from continuing operations before income taxes (benefit)	(158,664)	(120,805)	(589,419)	(562,289)
Income taxes (benefit)	(38,885)	122,120	(149,906)	(43,234)
Net loss from continuing operations	(119,779)	(242,925)	(439,513)	(519,055)
Net loss from discontinued operations, net of tax benefits of $1,962, $1,422, $4,731 and $6,094	(6,675)	(2,720)	(15,887)	(10,723)
NET LOSS	$(126,454)	$(245,645)	$(455,400)	$(529,778)
BASIC AND DILUTED LOSS PER SHARE:				
Continuing operations	$(0.58)	$(1.16)	$(2.13)	$(2.49)
Discontinued operations	(0.04)	(0.02)	(0.08)	(0.05)
Consolidated	$(0.62)	$(1.18)	$(2.21)	$(2.54)
DIVIDENDS DECLARED PER SHARE	$0.25	$0.24	$0.75	$0.72
COMPREHENSIVE LOSS:				
Net loss	$(126,454)	$(245,645)	$(455,400)	$(529,778)
Unrealized gains on securities, net of taxes	3	—	3	1
Change in foreign currency translation adjustments	1,235	4,848	(3,342)	5,924
Other comprehensive income (loss)	1,238	4,848	(3,339)	5,925
Comprehensive loss	$(125,216)	$(240,797)	$(458,739)	$(523,853)

See accompanying notes to consolidated financial statements.

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CONSOLIDATED BALANCE SHEETS	(unaudited, in 000s, except share and per share amounts)		
As of	January 31, 2019	January 31, 2018	April 30, 2018
ASSETS			
Cash and cash equivalents	$203,226	$187,366	$1,544,944
Cash and cash equivalents - restricted	101,903	83,033	118,734
Receivables, less allowance for doubtful accounts of $44,033, $45,215 and $81,813	758,217	791,618	146,774
Income taxes receivable	36,486	72,775	12,310
Prepaid expenses and other current assets	134,820	149,349	68,951
Total current assets	1,234,652	1,284,141	1,891,713
Property and equipment, at cost, less accumulated depreciation and amortization of $800,834, $757,809 and $745,397	220,505	249,911	231,888
Intangible assets, net	356,952	390,993	373,981
Goodwill	520,005	504,789	507,871
Deferred tax assets and income taxes receivable	141,366	25,305	34,095
Other noncurrent assets	95,326	106,161	101,401
Total assets	$2,568,806	$2,561,300	$3,140,949
LIABILITIES AND STOCKHOLDERS' EQUITY			
LIABILITIES:			
Accounts payable and accrued expenses	$202,101	$163,653	$251,975
Accrued salaries, wages and payroll taxes	140,902	135,626	141,499
Accrued income taxes and reserves for uncertain tax positions	49,009	164,246	263,050
Current portion of long-term debt	—	1,015	1,026
Deferred revenue and other current liabilities	195,634	201,988	186,101
Total current liabilities	587,646	666,528	843,651
Long-term debt and line of credit borrowings	1,876,989	2,284,231	1,494,609
Deferred tax liabilities and reserves for uncertain tax positions	214,217	201,384	229,430
Deferred revenue and other noncurrent liabilities	103,545	107,226	179,548
Total liabilities	2,782,397	3,259,369	2,747,238
COMMITMENTS AND CONTINGENCIES			
STOCKHOLDERS' EQUITY:			
Common stock, no par, stated value $.01 per share, 800,000,000 shares authorized, shares issued of 241,501,278, 246,198,878 and 246,198,878	2,415	2,462	2,462
Additional paid-in capital	764,982	758,361	760,250
Accumulated other comprehensive loss	(17,642)	(9,374)	(14,303)
Retained earnings (deficit)	(254,277)	(729,578)	362,980
Less treasury shares, at cost, of 36,460,305, 37,079,700 and 36,944,789	(709,069)	(719,940)	(717,678)
Total stockholders' equity (deficiency)	(213,591)	(698,069)	393,711
Total liabilities and stockholders' equity	$2,568,806	$2,561,300	$3,140,949

See accompanying notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS	(unaudited, in 000s)	
Nine months ended January 31,	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(455,400)	$(529,778)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	126,013	136,878
Provision for bad debt	35,009	33,429
Deferred taxes	20,557	113,345
Stock-based compensation	18,009	17,065
Changes in assets and liabilities, net of acquisitions:		
Receivables	(640,482)	(651,200)
Prepaid expenses and other current assets	(66,497)	(83,201)
Other noncurrent assets	9,662	8,310
Accounts payable and accrued expenses	(47,510)	(36,608)
Accrued salaries, wages and payroll taxes	(465)	(49,255)
Deferred revenue and other current liabilities	3,990	10,113
Deferred revenue and other noncurrent liabilities	(70,794)	(58,695)
Income tax receivables, accrued income taxes and income tax reserves	(277,240)	(255,650)
Other, net	(2,308)	(12,454)
Net cash used in operating activities	(1,347,456)	(1,357,701)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(79,982)	(77,865)
Payments made for business acquisitions, net of cash acquired	(42,428)	(39,397)
Franchise loans funded	(16,875)	(20,226)
Payments received on franchise loans	15,149	13,391
Other, net	4,877	1,524
Net cash used in investing activities	(119,259)	(122,573)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of line of credit borrowings	(230,000)	(40,000)
Proceeds from line of credit borrowings	615,000	830,000
Dividends paid	(154,866)	(150,258)
Repurchase of common stock, including shares surrendered	(102,152)	(7,746)
Proceeds from exercise of stock options	2,527	28,268
Other, net	(20,126)	(28,922)
Net cash provided by financing activities	110,383	631,342
Effects of exchange rate changes on cash	(2,217)	1,792
Net decrease in cash, cash equivalents and restricted cash	(1,358,549)	(847,140)
Cash, cash equivalents and restricted cash, beginning of period	1,663,678	1,117,539
Cash, cash equivalents and restricted cash, end of period	$305,129	$270,399
SUPPLEMENTARY CASH FLOW DATA:		
Income taxes paid, net of refunds received	$103,789	$102,755
Interest paid on borrowings	55,581	57,834
Accrued additions to property and equipment	2,241	1,078
Accrued purchase of common stock	12,301	—

See accompanying notes to consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION – The consolidated balance sheets as of January 31, 2019 and 2018, the consolidated statements of operations and comprehensive loss for the three and nine months ended January 31, 2019 and 2018, and the consolidated statements of cash flows for the nine months ended January 31, 2019 and 2018 have been prepared by the Company, without audit. In the opinion of management, all adjustments, which include only normal recurring adjustments, necessary to present fairly the financial position, results of operations, and cash flows as of January 31, 2019 and 2018 and for all periods presented have been made.

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

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States (GAAP) have been condensed or omitted. These consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in our April 30, 2018 Annual Report to Shareholders on Form 10-K and the additional financial statement disclosures provided under Accounting Standards Update No. 2014-09, “Revenue from Contracts with Customers” (ASU 2014-09), included in the Company’s Current Report on Form 8-K filed with the Securities and Exchange Commission on November 15, 2018. The Form 10-K and Form 8-K are collectively referred to herein as our "Annual Report on Form 10-K." All amounts presented herein as of April 30, 2018 or for the year then ended are derived from our Annual Report on Form 10-K.

MANAGEMENT ESTIMATES – The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Significant estimates, assumptions and judgments are applied in the evaluation of contingent losses arising from our discontinued mortgage business, contingent losses associated with pending claims and litigation, reserves for uncertain tax positions, and related matters. Estimates have been prepared based on the best information available as of each balance sheet date. As such, actual results could differ materially from those estimates.

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

DISCONTINUED OPERATIONS – Our discontinued operations include the results of operations of Sand Canyon Corporation, previously known as Option One Mortgage Corporation (including its subsidiaries, collectively, SCC), which exited its mortgage business in fiscal year 2008. See notes 9 and 10 for additional information on litigation, claims, and other loss contingencies related to our discontinued operations.

NEW ACCOUNTING PRONOUNCEMENTS –

Revenue Recognition. In May 2014, the FASB issued ASU 2014-09, which is a comprehensive new revenue recognition model that requires an entity to recognize the amount of revenue which reflects the consideration it expects to receive in exchange for the transfer of the promised goods or services to customers. This ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract, and clarifies guidance for multiple-element arrangements. This guidance replaced most existing revenue recognition guidance in GAAP when it became effective. The new standard was effective for us on May 1, 2018, and we adopted using the full retrospective transition method. The adoption of this guidance did not have a significant impact on our consolidated financial statements. See note 2 for additional information.

Income Taxes. In October 2016, the FASB issued Accounting Standards Update No. 2016-16, "Income Taxes (Topic 740): Intra-Entity Asset Transfers of Assets Other than Inventory" (ASU 2016-16). The new guidance eliminates the exception for intra-entity transfers other than inventory and requires the recognition of current and deferred income taxes resulting from such a transfer when the transfer occurs. This guidance was effective for us on May 1, 2018 and we adopted using the modified retrospective transition method. We recognized a $101.0 million cumulative effect

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adjustment to increase the opening balance of retained earnings and increase deferred tax assets resulting from intra-entity transfers of intellectual property in fiscal year 2018.

Leases. In February 2016, the FASB issued Accounting Standards Update No. 2016-02, "Leases" (ASU 2016-02), which will require the recognition of lease assets and lease liabilities by lessees for leases previously classified as operating leases. ASU 2016-02 also requires additional qualitative and quantitative disclosures related to the nature, timing and uncertainty of cash flows arising from leases. This guidance will be effective for us on May 1, 2019, with early adoption permitted. In July 2018, the FASB approved an amendment to the new guidance that provides an alternative transition method which allows companies the option of using the effective date of the new standard as the initial application date (at the beginning of the period in which is it adopted, rather than at the beginning of the earliest comparative period). We expect to adopt ASU 2016-02 using the alternative transition method, and we expect that adoption of the new standard will require changes to our internal controls over financial reporting.

We are in the process of evaluating the impact of ASU 2016-02 on our financial statements. The majority of our lease portfolio consists of retail office space in the U.S., Canada and Australia. The contract terms for these retail offices average four years and generally are from May 1 to April 30. We do not anticipate including renewal options in our lease terms under the new standard. As individual leases expire, those leases are generally renegotiated. At April 30 of any year, a significant number of our leases will be at the end of their terms, and therefore, we will have no right of use (ROU) asset or lease liability recorded in our financial statements related to those expired leases. This will cause variability in what is recorded in our financial statements as the ROU asset and lease liability are recorded at the beginning of the lease term (May 1). We estimate that the adoption of ASU 2016-02 will result in the addition of assets and liabilities of over $500 million to our consolidated balance sheet. However, the ultimate impact of the standard will depend on our lease portfolio, discount rates, and foreign currency rates as of May 1, 2019.

NOTE 2: REVENUE RECOGNITION

On May 1, 2018, we adopted ASU 2014-09 using the full retrospective approach for all contracts as of the adoption date. As the adoption of this guidance did not have a significant impact on our consolidated financial statements, no adjustments were made to the prior year periods to be in compliance with ASU 2014-09.

Revenue is recognized upon satisfaction of performance obligations by the transfer of a product or service to the customer. Revenue is the amount of consideration we expect to receive for our services and products, and excludes sales taxes. When providing the majority of our tax preparation services, we generally have multiple performance obligations that are provided simultaneously at a point in time and revenue is recognized at that time. Our Peace of Mind® Extended Service Plan (POM) and Tax Identity Shield® (TIS) products have multiple performance obligations that are provided over time. The transaction price for POM and TIS, which is due at the time of purchase, is allocated to the various performance obligations based on relative standalone selling prices. Revenues for POM and TIS are deferred until the respective performance obligations have been satisfied. We have determined that these contracts do not contain a significant financing component.

The majority of our revenues are from our U.S. business. The following table disaggregates our U.S. revenues by major service line, with all international businesses included in a single line, which consists primarily of tax preparation revenues:

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	(in 000s)			
	Three months ended January 31,		Nine months ended January 31,	
	2019	2018	2019	2018
Revenues:				
U.S. assisted tax preparation	$256,813	$267,328	$329,569	$333,956
U.S. royalties	42,265	45,420	57,898	59,395
U.S. DIY tax preparation	31,885	31,322	37,660	38,811
International revenues	12,304	12,308	96,980	100,659
Revenues from Refund Transfers	47,482	50,770	49,466	54,721
Revenues from Emerald Card®	14,980	16,125	38,704	40,292
Revenues from Peace of Mind® Extended Service Plan	16,596	19,967	77,491	76,495
Revenues from Tax Identity Shield®	7,655	6,818	17,639	7,329
Interest and fee income on Emerald Advance™	30,924	31,075	31,768	32,333
Other	7,480	7,293	25,263	23,091
Total revenues	$468,384	$488,426	$762,438	$767,082

Service revenues are recognized when performance obligations are satisfied as follows:

Assisted and DIY online tax preparation revenues are recorded when a completed return is electronically filed or accepted by the customer. The value of point-of-sale discounts and coupons are recorded as a reduction of revenue. Fees for electronic filing of tax returns prepared using our DIY desktop software are recorded when the return is electronically filed.

Revenues from Refund Transfers (RTs) are recognized when the Internal Revenue Service (IRS) acknowledgment is received and the bank account is established at Axos Bank, formerly known as BofI Federal Bank, a federal savings bank (Axos).

Revenues from our Emerald Card® program consist of interchange income from the use of debit cards and fees from the use of ATM networks, net of volume-based amounts retained by Axos in connection with our agreement. Interchange income is a fee paid by a merchant bank to Axos through the interchange network. Net revenue associated with our Emerald Card® is recognized based on cardholder transactions.

Under POM we (1) represent our clients if they are audited by a taxing authority, and (2) assume the cost, subject to certain limits, of additional taxes owed by a client resulting from errors attributable to H&R Block. POM revenues and incremental wages are deferred and recognized over the term of the plan, based on the historical pattern of actual claims paid, as claims paid represent the transfer of POM services to the customer. The plan is effective for the life of the tax return, which can be up to six years; however, the majority of claims are incurred in years two and three after the sale of POM.

Our TIS program offers clients assistance in helping protect their tax identity and access to services to help restore their tax identity, if necessary. Protection services include a daily scan of the dark web for personal information, a monthly scan for social security number in credit header data (new in fiscal year 2019), a pre-tax season identity theft risk assessment (only available to Assisted tax preparation clients), notifying clients if their information is detected on a tax return filed through H&R Block, and obtaining additional IRS identity protections when eligible. TIS revenues are deferred and are recognized as the various services are provided to the client, either by us or a third party, throughout the term of the contract, which ends on April 30th of the following year.

Royalty, product and other revenues are recognized when performance obligations are satisfied as follows:

Royalties, which are based on contractual percentages of franchise gross receipts, are generally recorded in the period in which the services are provided by the franchisee to the customer.

Revenue from the sale of DIY desktop software is recognized when the product is sold to the end user. Rebates and other incentives paid in connection with these sales are recorded as a reduction of revenue.

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Interest and fee income on Emerald Advance™ lines of credit (EAs) is recorded over the life of the underlying loan.
Changes in the balances of deferred revenue and wages for POM are as follows:

				(in 000s)
POM	Deferred Revenue		Deferred Wages	
Nine months ended January 31,	2019	2018	2019	2018
Balance, beginning of the period	$218,274	$211,223	$32,683	$31,344
Amounts deferred	27,711	29,023	1,773	2,649
Amounts recognized on previous deferrals	(90,439)	(86,347)	(13,569)	(12,496)
Balance, end of the period	$155,546	$153,899	$20,887	$21,497

As of January 31, 2019, deferred revenue related to POM was $155.5 million. We expect that $105.3 million will be recognized over the next twelve months, while the remaining balance will be recognized over the following sixty months.

Deferred revenue related to TIS was $36.4 million and $20.6 million at April 30, 2018 and 2017, respectively. As of January 31, 2019 and 2018, TIS deferred revenue was $21.3 million and $27.0 million, respectively. All deferred revenue related to TIS will be recognized within the next fifteen months.

A significant portion of our accounts receivable balances arise from services and products that we provide to our customers, with the exception of those related to EAs, which arise from purchased participations with Axos. The majority of our services and products must be paid for at the time of service, and therefore no receivable is recorded unless an RT is purchased. Generally the prices of our services and products are fixed and determinable at the time of sale. For our RT product, we record a receivable for our fees which is then collected at the time the IRS issues the client’s refund. Our receivables from customers are generally collected on a periodic basis during and subsequent to the tax season. See note 4 for our accounts receivable balances.

NOTE 3: LOSS PER SHARE AND STOCKHOLDERS' EQUITY

LOSS PER SHARE – Basic and diluted loss per share is computed using the two-class method. The two-class method is an earnings allocation formula that determines net income per share for each class of common stock and participating security according to dividends declared and participation rights in undistributed earnings. Per share amounts are computed by dividing net income or loss from continuing operations attributable to common shareholders by the weighted average shares outstanding during each period. The dilutive effect of potential common shares is included in diluted earnings per share except in those periods with a loss from continuing operations. Diluted earnings per share excludes the impact of shares of common stock issuable upon the lapse of certain restrictions or the exercise of options to purchase 3.4 million shares for the three and nine months ended January 31, 2019, and 3.3 million shares for the three and nine months ended January 31, 2018, as the effect would be antidilutive due to the net loss from continuing operations during those periods.

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The computations of basic and diluted loss per share from continuing operations are as follows:
(in 000s, except per share amounts)

	Three months ended January 31,		Nine months ended January 31,	
	2019	2018	2019	2018
Net loss from continuing operations attributable to shareholders	$(119,779)	$(242,925)	$(439,513)	$(519,055)
Amounts allocated to participating securities	(160)	(177)	(446)	(498)
Net loss from continuing operations attributable to common shareholders	$(119,939)	$(243,102)	$(439,959)	$(519,553)
Basic weighted average common shares	205,532	209,080	206,242	208,693
Potential dilutive shares	—	—	—	—
Dilutive weighted average common shares	205,532	209,080	206,242	208,693
Loss per share from continuing operations attributable to common shareholders:				
Basic	$(0.58)	$(1.16)	$(2.13)	$(2.49)
Diluted	(0.58)	(1.16)	(2.13)	(2.49)

The weighted average shares outstanding for the three and nine months ended January 31, 2019 decreased to 205.5 million and 206.2 million, respectively, from 209.1 million and 208.7 million, respectively, for the three and nine months ended January 31, 2018. The decrease is due to share repurchases completed in the current year. During the nine months ended January 31, 2019, we purchased and immediately retired 4.7 million shares at an aggregate cost of $109.4 million (average price of $23.29 per share). We did not repurchase and retire any shares during the nine months ended January 31, 2018. The cost of shares retired during the current period was allocated to the components of stockholders' equity as follows:

	(in 000s)
Common stock	$47
Additional paid-in-capital	2,818
Retained earnings	106,541
Total	$109,406

STOCK-BASED COMPENSATION – During the nine months ended January 31, 2019, we also acquired 0.2 million shares of our common stock at an aggregate cost of $5.0 million, which represent shares swapped or surrendered to us in connection with the vesting or exercise of stock-based awards. During the nine months ended January 31, 2018, we acquired 0.3 million shares at an aggregate cost of $7.7 million for similar purposes.

During the nine months ended January 31, 2019 and 2018, we issued 0.7 million and 2.2 million shares of common stock, respectively, due to the vesting or exercise of stock-based awards.

During the nine months ended January 31, 2019, we granted equity awards equivalent to 1.0 million shares under our stock-based compensation plans, consisting primarily of nonvested units. Stock-based compensation expense of our continuing operations totaled $6.2 million and $18.0 million for the three and nine months ended January 31, 2019, respectively, and $5.4 million and $17.1 million for the three and nine months ended January 31, 2018, respectively. As of January 31, 2019, unrecognized compensation cost for stock options totaled $0.7 million, and for nonvested shares and units totaled $31.8 million.

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NOTE 4: RECEIVABLES

Receivables, net of their related allowance, consist of the following:

(in 000s)

As of	January 31, 2019		January 31, 2018		April 30, 2018	
	Short-term	Long-term	Short-term	Long-term	Short-term	Long-term
Loans to franchisees	$28,941	$ 41,669	$41,062	$ 47,434	$30,596	$ 35,212
Receivables for U.S. assisted and DIY tax preparation and related fees	281,266	5,503	299,805	6,316	41,572	5,503
H&R Block Instant Refund™ receivables	5,822	247	6,848	—	27,192	2,057
H&R Block Emerald Advance™ lines of credit	362,400	7,667	353,972	9,081	15,642	5,754
Software receivables from retailers	8,396	—	7,744	—	6,769	—
Royalties and other receivables from franchisees	54,907	733	56,149	788	9,239	761
Other	16,485	2,698	26,038	3,608	15,764	3,147
	$758,217	$ 58,517	$791,618	$ 67,227	$146,774	$ 52,434

Balances presented above as short-term are included in receivables, while the long-term portions are included in other noncurrent assets in the consolidated balance sheets.

LOANS TO FRANCHISEES – Franchisee loan balances consist of term loans made primarily to finance the purchase of franchises and revolving lines of credit primarily for the purpose of funding off-season working capital needs. As of January 31, 2019 and 2018, loans with a principal balance of $0.9 million and $1.3 million, respectively, were more than 90 days past due. We had no loans to franchisees on non-accrual status.

H&R BLOCK INSTANT REFUND™ PROGRAM – H&R Block Instant Refund™ (formerly Instant Cash Back®) amounts are generally received from the Canada Revenue Agency (CRA) within 60 days of filing the client's return, with the remaining balance collectible from the client. As of January 31, 2019 and 2018, we had $19 thousand and $45 thousand, respectively, of Instant Refund balances more than 60 days old due from the CRA.

We review the credit quality of our Instant Refund receivables based on pools, which are segregated by the year of origination, with older years being deemed more unlikely to be repaid. As of January 31, 2019, gross balances of $5.2 million and $0.9 million, were related to tax returns for calendar year 2019 and 2018 and prior, respectively.

H&R BLOCK EMERALD ADVANCE™ LINES OF CREDIT – We review the credit quality of our purchased participation interests in EA receivables based on pools, which are segregated by the year of origination, with older years being deemed more unlikely to be repaid. Balances and amounts on non-accrual status and classified as impaired, or more than 60 days past due, as of January 31, 2019, by year of origination, are as follows:

(in 000s)

Year of origination:	Balance	Non-Accrual
2019	$365,620	$ —
2018 and prior	14,068	14,068
Revolving loans	18,896	12,221
	398,584	$ 26,289
Allowance	(28,517)	
Net balance	$370,067	

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ALLOWANCE FOR DOUBTFUL ACCOUNTS – Activity in the allowance for doubtful accounts for our EA and all other short-term and long-term receivables for the nine months ended January 31, 2019 and 2018 is as follows:
(in 000s)

	EAs	All Other	Total
Balances as of April 30, 2018	$26,622	$55,191	$81,813
Provision	18,254	16,755	35,009
Charge-offs, recoveries and other [(1)]	(16,359)	(55,459)	(71,818)
Balances as of January 31, 2019	$28,517	$16,487	$45,004
Balances as of April 30, 2017	$10,123	$46,552	$56,675
Provision	17,682	15,747	33,429
Charge-offs, recoveries and other [(1)]	—	(44,889)	(44,889)
Balances as of January 31, 2018	$27,805	$17,410	$45,215

(1) In fiscal year 2019 we charged-off older EA balances in December while in prior years, these charge-offs happened in April.

NOTE 5: GOODWILL AND INTANGIBLE ASSETS

Changes in the carrying amount of goodwill for the nine months ended January 31, 2019 and 2018 are as follows:
(in 000s)

	Goodwill	Accumulated Impairment Losses	Net
Balances as of April 30, 2018	$540,168	$ (32,297)	$507,871
Acquisitions	13,076	—	13,076
Disposals and foreign currency changes, net	(942)	—	(942)
Impairments	—	—	—
Balances as of January 31, 2019	$552,302	$ (32,297)	$520,005
Balances as of April 30, 2017	$523,504	$ (32,297)	$491,207
Acquisitions	11,579	—	11,579
Disposals and foreign currency changes, net	2,003	—	2,003
Impairments	—	—	—
Balances as of January 31, 2018	$537,086	$ (32,297)	$504,789

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

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Components of intangible assets are as follows:
(in 000s)

	Gross Carrying Amount	Accumulated Amortization	Net
As of January 31, 2019:			
Reacquired franchise rights	$350,459	$(130,618)	$219,841
Customer relationships	274,293	(187,080)	87,213
Internally-developed software	147,465	(119,664)	27,801
Noncompete agreements	33,369	(31,040)	2,329
Franchise agreements	19,201	(13,014)	6,187
Purchased technology	54,700	(42,082)	12,618
Acquired assets pending final allocation [1]	963	—	963
	$880,450	$(523,498)	$356,952
As of January 31, 2018:			
Reacquired franchise rights	$339,544	$(108,063)	$231,481
Customer relationships	251,792	(156,234)	95,558
Internally-developed software	151,095	(123,309)	27,786
Noncompete agreements	32,853	(29,195)	3,658
Franchise agreements	19,201	(11,734)	7,467
Purchased technology	54,700	(36,329)	18,371
Acquired assets pending final allocation [1]	6,672	—	6,672
	$855,857	$(464,864)	$390,993
As of April 30, 2018:			
Reacquired franchise rights	$339,779	$(113,856)	$225,923
Customer relationships	256,137	(164,005)	92,132
Internally-developed software	140,255	(111,734)	28,521
Noncompete agreements	32,899	(29,673)	3,226
Franchise agreements	19,201	(12,054)	7,147
Purchased technology	54,700	(37,770)	16,930
Acquired assets pending final allocation [1]	102	—	102
	$843,073	$(469,092)	$373,981

[1] Represents business acquisitions for which final purchase price allocations have not yet been determined.

During the nine months ended January 31, 2019 and 2018, we made payments to acquire franchisee and competitor businesses totaling $42.4 million and $39.4 million, respectively.

The increase in the gross carrying amount of intangible assets resulted primarily from the acquisition of approximately 175 offices to our company-owned and franchise network. The amounts and weighted-average lives of intangible assets acquired or added during the nine months ended January 31, 2019 are as follows:
(dollars in 000s)

	Amount	Weighted-Average Life (in years)
Reacquired franchise rights	$10,734	5
Customer relationships	17,520	5
Noncompete agreements	488	5
Total	$28,742	5

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Amortization of intangible assets for the three and nine months ended January 31, 2019 was $18.7 million and $54.5 million, respectively. Amortization for the three and nine months ended January 31, 2018 was $20.8 million and $59.5 million, respectively. Estimated amortization of intangible assets for fiscal years 2019, 2020, 2021, 2022 and 2023 is $73.2 million, $60.7 million, $44.2 million, $31.4 million and $18.2 million, respectively.

NOTE 6: LONG-TERM DEBT

The components of long-term debt are as follows:

			(in 000s)
As of	January 31, 2019	January 31, 2018	April 30, 2018
Senior Notes, 4.125%, due October 2020	$650,000	$650,000	$650,000
Senior Notes, 5.500%, due November 2022	500,000	500,000	500,000
Senior Notes, 5.250%, due October 2025	350,000	350,000	350,000
Committed line of credit borrowings	385,000	790,000	—
Capital lease obligation	—	5,878	5,628
Debt issuance costs and discounts	(8,011)	(10,632)	(9,993)
	1,876,989	2,285,246	1,495,635
Less: Current portion	—	(1,015)	(1,026)
	$1,876,989	$2,284,231	$1,494,609

UNSECURED COMMITTED LINE OF CREDIT – On September 21, 2018, we entered into a Third Amended and Restated Credit and Guarantee Agreement (2018 CLOC), which amended and restated our Second Amended and Restated Credit and Guarantee Agreement (2017 CLOC), extending the scheduled maturity date from September 22, 2022 to September 21, 2023. Other material terms remain unchanged from our 2017 CLOC. The 2018 CLOC provides for an unsecured senior revolving credit facility in the aggregate principal amount of $2.0 billion, which includes a $200.0 million sublimit for swingline loans and a $50.0 million sublimit for standby letters of credit. We may request increases in the aggregate principal amount of the revolving credit facility of up to $500.0 million, subject to obtaining commitments from lenders and meeting certain other conditions. The 2018 CLOC will mature on September 21, 2023,
unless extended pursuant to the terms of the 2018 CLOC, at which time all outstanding amounts thereunder will be due and payable. The 2018 CLOC includes an annual facility fee, which will vary depending on our then current credit ratings.

The 2018 CLOC is subject to various conditions, triggers, events or occurrences that could result in earlier termination and contains customary representations, warranties, covenants and events of default, including, without limitation: (1) a covenant requiring the Company to maintain a debt-to-EBITDA ratio calculated on a consolidated basis of no greater than (a) 3.50 to 1.00 as of the last day of each fiscal quarter ending on April 30, July 31, and October 31 of each year and (b) 4.50 to 1.00 as of the last day of each fiscal quarter ending on January 31 of each year; (2) a covenant requiring us to maintain an interest coverage ratio (EBITDA-to-interest expense) calculated on a consolidated basis of not less than 2.50 to 1.00 as of the last date of any fiscal quarter; and (3) covenants restricting our ability to incur certain additional debt, incur liens, merge or consolidate with other companies, sell or dispose of assets (including equity interests), liquidate or dissolve, engage in certain transactions with affiliates or enter into certain restrictive agreements. The 2018 CLOC includes provisions for an equity cure which could potentially allow us to independently cure certain defaults. Proceeds under the 2018 CLOC may be used for working capital needs or for other general corporate purposes. We were in compliance with these requirements as of January 31, 2019.

We had an outstanding balance of $385.0 million under the 2018 CLOC as of January 31, 2019, and may borrow up to the full capacity of $2.0 billion.

In October 2018, we exercised a purchase option to acquire an office building previously recorded as a capital lease.

The estimated fair value of our long-term debt as of January 31, 2019 and 2018 and April 30, 2018 totaled $1.9 billion, $2.4 billion and $1.5 billion, respectively.

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NOTE 7: INCOME TAXES

We file a consolidated federal income tax return in the U.S. with the IRS and file tax returns in various state, local, and foreign jurisdictions. Tax returns are typically examined and either settled upon completion of the examination or through the appeals process. The Company's U.S. federal income tax return for 2016 is currently under examination. Our U.S. federal income tax return for 2015 remains open for examination. Our U.S. federal income tax returns for 2014 and all prior periods are closed. With respect to state and local jurisdictions and countries outside of the U.S., we are typically subject to examination for three to six years after the income tax returns have been filed. Although the outcome of tax audits is always uncertain, we believe that adequate amounts of tax, interest, and penalties have been provided for in the accompanying consolidated financial statements for any adjustments that might be incurred due to federal, state, local or foreign audits.

On December 22, 2017, the U.S. government enacted the legislation commonly referred to as the Tax Cuts and Jobs Act (Tax Legislation), which made broad and complex changes to the U.S. tax code that impacted our financial statements, the most significant being a reduction in the U.S. federal corporate income tax rate from 35% to 21% and the imposition of a one-time transition tax on certain earnings of foreign subsidiaries. In addition, the Securities and Exchange Commission staff issued Staff Accounting Bulletin 118 (SAB 118), which provided guidance on accounting for the tax effects of the Tax Legislation. SAB 118 provided a measurement period that should not extend beyond one year from the Tax Legislation’s enactment date for companies to complete their analysis and apply the provisions of the Tax Legislation to their financial statements. As of the third quarter of fiscal 2019, we have completed our accounting for all aspects of the Tax Legislation and our financial statements reflect the final effects of the Tax Legislation in computing our deferred taxes, the one-time transition tax, the tax on global intangible low taxed income (GILTI), unrecognized tax benefits, and the indirect impacts of the Tax Legislation on state and local taxes. The adjustments during the quarter were immaterial to the provisional amounts previously recorded. We have elected to account for GILTI as a period cost at the time it is incurred.

Consistent with prior years, our pretax loss for the nine months ended January 31, 2019 is expected to be offset by income in the fourth quarter due to the established pattern of seasonality in our primary business operations. As such, management has determined that it is at least more-likely-than-not that realization of tax benefits recorded in our financial statements will occur within our fiscal year. The amount of tax benefit recorded for the nine months ended January 31, 2019 reflects management’s estimate of the annual effective tax rate applied to the year-to-date loss from continuing operations adjusted for the tax impact of items discrete to the quarter.

Our effective tax rate from continuing operations, including the effects of discrete income tax items, was 25.4% and 7.7% for the nine months ended January 31, 2019 and 2018, respectively. Rate reconciliations between the statutory U.S. federal corporate income rates and the effective tax rates for continuing operations are below:

Nine months ended January 31,	2019	2018
U.S. statutory tax rate	21.0 %	21.0 %
Change in tax rate resulting from:		
State income taxes, net of federal income tax benefit	2.1 %	2.2 %
Earnings taxed in foreign jurisdictions	(3.2)%	(2.3)%
Permanent differences	0.3 %	0.3 %
Uncertain tax positions	4.3 %	6.0 %
Remeasurement of deferred tax assets and liabilities	(0.1)%	2.4 %
Tax benefit due to effective date of statutory rate change	—	(16.4)%
One-time transition tax	—	(2.4)%
Other	1.0 %	(3.1)%
Effective tax rate	25.4 %	7.7 %

The increase in the effective tax rate compared to the prior year is due to the impact of lowering the U.S. federal corporate income tax rate from 35% to 21%, effective January 1, 2018, had in fiscal year 2018. The impact of the rate decrease was exaggerated in fiscal year 2018 due to the seasonality of our business and our differing year ends for corporate income tax filing and financial reporting purposes, which is included as “tax benefit due to effective date of statutory rate change” in the table above. Our tax returns for the U.S. are filed on a calendar year-end basis. Therefore, pretax losses for the eight months ended December 31, 2017 resulted in income tax benefits based on the statutory rate of 35%, while the pretax income we generated in the four months ending April 30, 2018 was taxed at the statutory rate of 21%.

We had gross unrecognized tax benefits of $178.1 million, $163.1 million and $186.1 million as of January 31, 2019 and 2018 and April 30, 2018, respectively. The gross unrecognized tax benefits decreased $8.0 million and increased $13.1 million during the nine months ended January 31, 2019 and 2018, respectively. We believe it is reasonably possible that the balance of unrecognized tax benefits could decrease by approximately $46.7 million within the next twelve months.

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The anticipated decrease is due to the expiration of statutes of limitations, anticipated closure of various tax matters currently under examination, and settlements with tax authorities. For such matters where a change in the balance of unrecognized tax benefits is not yet deemed reasonably possible, no estimate has been included.

The increase in noncurrent deferred tax assets and income taxes receivable of $107.3 million from April 30, 2018 is primarily due to the adoption of ASU 2016-16. See note 1 for additional information.

NOTE 8: OTHER INCOME AND OTHER EXPENSES

The following table shows the components of other income (expense), net:

(in 000s)

	Three months ended January 31,		Nine months ended January 31,	
	2019	2018	2019	2018
Interest income	2,258	699	$11,260	$3,454
Foreign currency gains (losses), net	33	21	(94)	35
Other, net	(22)	308	109	(230)
	$2,269	$1,028	$11,275	$3,259

NOTE 9: COMMITMENTS AND CONTINGENCIES

Assisted tax returns are covered by our 100% accuracy guarantee, whereby we will reimburse a client for penalties and interest attributable to an H&R Block error on a return. DIY tax returns are covered by our 100% accuracy guarantee, whereby we will reimburse a client up to a maximum of $10,000 if our software makes an arithmetic error that results in payment of penalties and/or interest to the IRS that a client would otherwise not have been required to pay. Our liability related to estimated losses under the 100% accuracy guarantee was $7.0 million, $3.3 million and $9.4 million as of January 31, 2019 and 2018 and April 30, 2018, respectively. The short-term and long-term portions of this liability are included in deferred revenue and other liabilities in the consolidated balance sheets.

Our liability related to acquisitions for estimated contingent consideration was $11.3 million, $11.9 million and $12.1 million as of January 31, 2019 and 2018 and April 30, 2018, respectively, with amounts recorded in deferred revenue and other liabilities. Estimates of contingent payments are typically based on expected financial performance of the acquired business and economic conditions at the time of acquisition. Should actual results differ from our assumptions, future payments made will differ from the above estimate and any differences will be recorded in results from continuing operations.

We have contractual commitments to fund certain franchises with approved revolving lines of credit. Our total obligation under these lines of credit was $30.8 million at January 31, 2019, and net of amounts drawn and outstanding, our remaining commitment to fund totaled $9.3 million.

Emerald Advance™ lines of credit (EAs) are originated by Axos. We purchase a 90% participation interest, at par, in all EAs originated by Axos in accordance with our participation agreement. At January 31, 2019, the principal balance of purchased participation interests for the current year totaled $360.6 million.

On July 26, 2018, we entered into a Refund Advance Program Agreement and certain ancillary agreements with Axos, pursuant to which they originate and fund Refund Advance loans, and provide technology, software, and underwriting support services related to such loans during the 2019 tax season. Refund Advance loans are offered to certain assisted U.S. tax preparation clients, based on client eligibility as determined by the loan originator. We pay loan origination fees based on volume and customer type. The loan origination fees are intended to cover expected loan losses and payments to capital providers, among other items. We have provided two limited guarantees related to this agreement. We have provided a limited guarantee up to $7.5 million related to loans to clients prior to the IRS accepting electronic filing. At January 31, 2019 we accrued an estimated liability of $1.4 million related to this guarantee, compared to $1.6 million at January 31, 2018. We paid $1.5 million related to this guarantee for the fiscal year 2018 tax season. Additionally, we provided a limited guarantee for the remaining loans, up to $57 million in the aggregate, which would cover certain incremental loan losses. We were not required to make a payment in connection with this guarantee for the fiscal year 2018 tax season, and we do not expect that a material amount will be paid for this guarantee under anticipated loss scenarios related to the fiscal year 2019 tax season.

LOSS CONTINGENCIES PERTAINING TO DISCONTINUED MORTGAGE OPERATIONS – SCC ceased originating mortgage loans in December 2007 and, in April 2008, sold its servicing assets and discontinued its remaining operations. Mortgage loans originated by SCC were sold either as whole loans to single third-party buyers, who generally securitized such loans, or in the form of residential mortgage-backed securities (RMBSs). In connection with the sale of loans and/or RMBSs, SCC made certain representations and warranties. Claims under these representations and warranties

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together with any settlement arrangements related to these losses are collectively referred to as "representation and warranty claims."

SCC accrues a liability for losses related to representation and warranty claims when those losses are believed to be both probable and reasonably estimable. SCC's loss estimate is based on the best information currently available, management judgment, developments in relevant case law, and the terms of bulk settlements. In periods when a liability is accrued for such loss contingencies, the liability is included in deferred revenue and other current liabilities on the consolidated balance sheets. SCC had no liability accrued for these losses as of January 31, 2019 and 2018 or April 30, 2018.

See note 10, which addresses contingent losses that may be incurred with respect to various indemnification or contribution claims by underwriters, depositors, and securitization trustees in securitization transactions in which SCC participated.

NOTE 10: LITIGATION AND OTHER RELATED CONTINGENCIES

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

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

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

We accrue liabilities for litigation, claims, including indemnification and contribution claims, and other related loss contingencies and any related settlements (each referred to, individually, as a "matter" and, collectively, as "matters") when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. If a range of loss is estimated, and some amount within that range appears to be a better estimate than any other amount within that range, then that amount is accrued. If no amount within the range can be identified as a better estimate than any other amount, we accrue the minimum amount in the range.

For such matters where a loss is believed to be reasonably possible, but not probable, or the loss cannot be reasonably estimated, no accrual has been made. It is possible that such matters could require us to pay damages or make other expenditures or accrue liabilities in amounts that could not be reasonably estimated as of January 31, 2019. While the potential future liabilities could be material in the particular quarterly or annual periods in which they are recorded, based on information currently known, we do not believe any such liabilities are likely to have a material adverse effect on our business and our consolidated financial position, results of operations, and cash flows. As of January 31, 2019 and 2018 and April 30, 2018, our total accrued liabilities were $3.1 million, $2.5 million and $2.7 million, respectively.

Our aggregate range of reasonably possible losses includes (1) matters where a liability has been accrued and there is a reasonably possible loss in excess of the amount accrued for that liability, and (2) matters where a loss is believed to be reasonably possible, but a liability has not been accrued. This aggregate range only represents those losses as to which we are currently able to estimate a reasonably possible loss or range of loss. It does not represent our maximum loss exposure. The estimated range of reasonably possible loss is based upon currently available information and is subject to significant judgment and a variety of assumptions, as well as known and unknown uncertainties. The

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matters underlying the estimated range will change from time to time, and actual results may vary significantly from the current estimate. As of January 31, 2019, we believe the aggregate range of reasonably possible losses in excess of amounts accrued is not material.

For other matters, we are not currently able to estimate the reasonably possible loss or range of loss. We are often unable to estimate the possible loss or range of loss until developments in such matters have provided sufficient information to support an assessment of the reasonably possible loss or range of loss, such as precise information about the amount of damages or other remedies being asserted, the defenses to the claims being asserted, discovery from other parties and investigation of factual allegations, rulings by courts on motions or appeals, analysis by experts, or the status or terms of any settlement negotiations.

On a quarterly and annual basis, we review relevant information with respect to litigation and other loss contingencies and update our accruals, disclosures, and estimates of reasonably possible loss or range of loss based on such reviews. Costs incurred with defending matters are expensed as incurred. Any receivable for insurance recoveries is recorded separately from the corresponding liability, and only if recovery is determined to be probable and reasonably estimable.

We believe we have meritorious defenses to the claims asserted in the various matters described in this note, and we intend to defend them vigorously, but there can be no assurances as to their outcomes. In the event of unfavorable outcomes, it could require modifications to our operations; in addition, the amounts that may be required to be paid to discharge or settle the matters could be substantial and could have a material adverse impact on our business and our consolidated financial position, results of operations, and cash flows.

LITIGATION, CLAIMS, INCLUDING INDEMNIFICATION AND CONTRIBUTION CLAIMS, OR OTHER LOSS CONTINGENCIES PERTAINING TO DISCONTINUED MORTGAGE OPERATIONS – Although SCC ceased its mortgage loan origination activities in December 2007 and sold its loan servicing business in April 2008, SCC or the Company has been, remains, and may in the future be, subject to litigation, claims, including indemnification and contribution claims, and other loss contingencies pertaining to SCC's mortgage business activities that occurred prior to such termination and sale. These lawsuits, claims, and other loss contingencies include actions by regulators, third parties seeking indemnification or contribution, including depositors, underwriters, and securitization trustees, individual plaintiffs, and cases in which plaintiffs seek to represent a class of others alleged to be similarly situated. Among other things, these lawsuits, claims, and other loss contingencies allege or may allege discriminatory or unfair and deceptive loan origination and servicing (including debt collection, foreclosure, and eviction) practices, other common law torts, rights to indemnification or contribution, breach of contract, violations of securities laws, and violations of a variety of federal statutes, including the Truth in Lending Act (TILA), Equal Credit Opportunity Act, Fair Housing Act, Real Estate Settlement Procedures Act (RESPA), Home Ownership & Equity Protection Act (HOEPA), as well as similar state statutes. It is difficult to predict either the likelihood of new matters being initiated or the outcome of existing matters. In many of these matters it is not possible to estimate a reasonably possible loss or range of loss due to, among other things, the inherent uncertainties involved in these matters, some of which are beyond the Company's control, and the indeterminate damages sought in some of these matters.

Mortgage loans originated by SCC were sold either as whole loans to single third-party buyers, who generally securitized such loans, or in the form of RMBSs. In connection with the sale of loans and/or RMBSs, SCC made certain representations and warranties. 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. On June 11, 2015, the New York Court of Appeals, New York’s highest court, held in ACE Securities Corp. v. DB Structured Products, Inc., that the six-year statute of limitations under New York law starts to run at the time the representations and warranties are made, not the date when the repurchase demand was denied. This decision applies to claims and lawsuits brought against SCC where New York law governs. New York law governs many, though not all, of the RMBS transactions into which SCC entered. However, this decision would not affect representation and warranty claims and lawsuits SCC has received or may receive, for example, where the statute of limitations has been tolled by agreement or a suit was timely filed.

In response to the statute of limitations rulings in the ACE case and similar rulings in other state and federal courts, parties seeking to pursue representation and warranty claims or lawsuits have sought, and may in the future seek, to distinguish certain aspects of the ACE decision, pursue alternate legal theories of recovery, or assert claims against other contractual parties such as securitization trustees. For example, a 2016 ruling by a New York intermediate

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appellate court, followed by the federal district court in the second Homeward case described below, allowed a counterparty to pursue litigation on additional loans in the same trust even though only some of the loans complied with the condition precedent of timely pre-suit notice and opportunity to cure or repurchase. Additionally, plaintiffs in litigation to which SCC is not party have alleged breaches of an independent contractual duty to provide notice of material breaches of representations and warranties and pursued separate claims to which, they argue, the statute of limitations ruling in the ACE case does not apply. The impact on SCC from alternative legal theories seeking to avoid or distinguish the ACE decision, or judicial limitations on the ACE decision, is unclear. SCC has not accrued liabilities for claims not subject to a tolling arrangement or not relating back to timely filed litigation.

On May 31, 2012, a lawsuit was filed by Homeward Residential, Inc. (Homeward) in the Supreme Court of the State of New York, County of New York, against SCC styled Homeward Residential, Inc. v. Sand Canyon Corporation (Index No. 651885/2012). SCC removed the case to the United States District Court for the Southern District of New York on June 28, 2012 (Case No. 12-cv-5067). The plaintiff, in its capacity as the master servicer for Option One Mortgage Loan Trust 2006-2 and for the benefit of the trustee and the certificate holders of such trust, asserts claims for breach of contract, anticipatory breach, indemnity, and declaratory judgment in connection with alleged losses incurred as a result of the breach of representations and warranties relating to SCC and to loans sold to the trust. The plaintiff seeks specific performance of alleged repurchase obligations or damages to compensate the trust and its certificate holders for alleged actual and anticipated losses, as well as a repurchase of all loans due to alleged misrepresentations by SCC as to itself and as to the loans' compliance with its underwriting standards and the value of underlying real estate. In response to a motion filed by SCC, the court dismissed the plaintiff's claims for breach of the duty to cure or repurchase, anticipatory breach, indemnity, and declaratory judgment. The case is proceeding on the remaining claims. Representatives of a holder of certificates in the trust filed a motion to intervene to add H&R Block, Inc. to the lawsuit and assert claims against H&R Block, Inc. based on alter ego, corporate veil-piercing, and agency law. On February 12, 2018, the court denied the motion to intervene. We have not concluded that a loss related to this matter is probable, nor have we accrued a liability related to this matter.

On September 28, 2012, a second lawsuit was filed by Homeward in the United States District Court for the Southern District of New York against SCC styled Homeward Residential, Inc. v. Sand Canyon Corporation (Case No. 12-cv-7319). The plaintiff, in its capacity as the master servicer for Option One Mortgage Loan Trust 2006-3 and for the benefit of the trustee and the certificate holders of such trust, asserts claims for breach of contract and indemnity in connection with losses allegedly incurred as a result of the breach of representations and warranties relating to 96 loans sold to the trust. The plaintiff seeks specific performance of alleged repurchase obligations or damages to compensate the trust and its certificate holders for alleged actual and anticipated losses. In response to a motion filed by SCC, the court dismissed the plaintiff's claims for breach of the duty to cure or repurchase and for indemnification of its costs associated with the litigation. On September 30, 2016, the court granted a motion allowing the plaintiff to file a second amended complaint to include breach of contract claims with respect to 649 additional loans in the trust and to allow such claims with respect to other loans in the trust proven to be in material breach of SCC’s representations and warranties. SCC filed a motion for reconsideration, followed by a motion for leave to appeal the ruling, both of which were denied. On October 6, 2016, the plaintiff filed its second amended complaint. In response to a motion filed by SCC, the court dismissed the plaintiff's claim for breach of one of the representations. The case is proceeding on the remaining claims. Representatives of a holder of certificates in the trust filed a motion to intervene to add H&R Block, Inc. to the lawsuit and assert claims against H&R Block, Inc. based on alter ego, corporate veil-piercing, and agency law. On February 12, 2018, the court denied the motion to intervene. Settlement payments that were made in fiscal year 2018 for representation and warranty claims are related to some of the loans in this case. We have not concluded that a loss related to this lawsuit is probable, nor have we accrued a liability related to this lawsuit.

Underwriters and depositors are, or have been, involved in multiple lawsuits related to securitization transactions in which SCC participated. These lawsuits allege or alleged a variety of claims, including violations of federal and state securities laws and common law fraud, based on alleged materially inaccurate or misleading disclosures. SCC has received notices of claims for indemnification relating to lawsuits to which underwriters or depositors are party. Based on information currently available to SCC, it believes that the 21 lawsuits in which notice of a claim has been made involve 39 securitization transactions with original investments of approximately $14 billion (of which the outstanding principal amount is approximately $3.1 billion). Additional lawsuits against the underwriters or depositors may be filed in the future, and SCC may receive additional notices of claims for indemnification or contribution from underwriters or depositors with respect to existing or new lawsuits or settlements of such lawsuits. Certain of the

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notices received included, and future notices may include, a reservation of rights to assert claims for contribution, which are referred to herein as "contribution claims." Contribution claims may become operative if indemnification is unavailable or insufficient to cover all of the losses and expenses involved. We have not concluded that a loss related to any of these indemnification or contribution claims is probable, nor have we accrued a liability related to any of these claims.

Securitization trustees also are, or have been, involved in lawsuits related to securitization transactions in which SCC participated. Plaintiffs in these lawsuits allege, among other things, that originators, depositors, servicers, or other parties breached their representations and warranties or otherwise failed to fulfill their obligations, including that securitization trustees breached their contractual obligations, breached their fiduciary duties, or violated statutory requirements by failing to properly protect the certificate holders' interests. SCC has received notices from securitization trustees of potential indemnification obligations, and may receive additional notices with respect to existing or new lawsuits or settlements of such lawsuits, in its capacity as originator, depositor, or servicer. We have not concluded that a loss related to any of these indemnification claims is probable, nor have we accrued a liability related to any of these claims.

If the amount that SCC is ultimately required to pay with respect to claims and litigation related to its past sales and securitizations of mortgage loans, together with payment of SCC's related administration and legal expense, exceeds SCC's net assets, the creditors of SCC, other potential claimants, 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. Claimants may also attempt to assert claims against or seek payment directly from the Company even if SCC's assets exceed its liabilities. SCC's principal assets, as of January 31, 2019, total approximately $293 million and consist of an intercompany note receivable. 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.

LITIGATION, CLAIMS AND OTHER LOSS CONTINGENCIES PERTAINING TO OTHER DISCONTINUED OPERATIONS –

Express IRA Litigation. On January 2, 2008, the Mississippi Attorney General in the Chancery Court of Hinds County, Mississippi First Judicial District (Case No. G 2008 6 S 2) filed a lawsuit regarding our former Express IRA product that is styled Jim Hood, Attorney for the State of Mississippi v. H&R Block, Inc., H&R Block Financial Advisors, Inc., et al. The complaint alleges fraudulent business practices, deceptive acts and practices, common law fraud and breach of fiduciary duty with respect to the sale of the product in Mississippi and seeks equitable relief, disgorgement of profits, damages and restitution, civil penalties and punitive damages. We have not concluded that a loss related to this matter is probable, nor have we accrued a loss contingency related to this matter.

Although we sold H&R Block Financial Advisors, Inc. effective November 1, 2008, we remain responsible for any liabilities relating to the Express IRA litigation through an indemnification agreement.

OTHER – We are from time to time a party to litigation, claims and other loss contingencies not discussed herein arising out of our business operations. These matters may include actions by state attorneys general, other state regulators, federal regulators, individual plaintiffs, and cases in which plaintiffs seek to represent others who may be similarly situated.

While we cannot provide assurance that we will ultimately prevail in each instance, we believe the amount, if any, we are required to pay to discharge or settle these other matters will not have a material adverse impact on our business and our consolidated financial position, results of operations, and cash flows.

We believe we have meritorious defenses to the claims asserted in the various matters described in this note, and we intend to defend them vigorously. The amounts claimed in the matters are substantial, however, and there can be no assurances as to their outcomes. In the event of unfavorable outcomes, it could require modifications to our operations; in addition, the amounts that may be required to be paid to discharge or settle the matters could be substantial and could have a material adverse impact on our business and our consolidated financial position, results of operations, and cash flows.

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NOTE 11: CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

Block Financial LLC (Block Financial) is a 100% owned subsidiary of the Company. Block Financial is the Issuer and the Company is the full and unconditional Guarantor of the Senior Notes, our 2018 CLOC and other indebtedness issued from time to time. These condensed consolidating financial statements have been prepared using the equity method of accounting. Earnings of subsidiaries are, therefore, reflected in the Company's investment in subsidiaries account. The elimination entries eliminate investments in subsidiaries, related stockholders' equity and other intercompany balances and transactions.

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS (in 000s)

Three months ended January 31, 2019	H&R Block, Inc. (Guarantor)	Block Financial (Issuer)	Other Subsidiaries	Eliminations	Consolidated H&R Block
Total revenues	$ —	$ 53,461	$ 433,144	$ (18,221)	$ 468,384
Cost of revenues	—	34,533	396,672	(10,179)	421,026
Selling, general and administrative	—	10,347	183,153	(8,042)	185,458
Total operating expenses	—	44,880	579,825	(18,221)	606,484
Other income (expense), net	(134,984)	8,903	348	128,002	2,269
Interest expense on external borrowings	—	(22,833)	—	—	(22,833)
Loss from continuing operations before income taxes (benefit)	(134,984)	(5,349)	(146,333)	128,002	(158,664)
Income taxes (benefit)	(8,530)	75	(30,430)	—	(38,885)
Net loss from continuing operations	(126,454)	(5,424)	(115,903)	128,002	(119,779)
Net loss from discontinued operations	—	(6,675)	—	—	(6,675)
Net loss	(126,454)	(12,099)	(115,903)	128,002	(126,454)
Other comprehensive income	1,238	—	1,238	(1,238)	1,238
Comprehensive loss	$ (125,216)	$ (12,099)	$ (114,665)	$ 126,764	$ (125,216)

(in 000s)

Three months ended January 31, 2018	H&R Block, Inc. (Guarantor)	Block Financial (Issuer)	Other Subsidiaries	Eliminations	Consolidated H&R Block
Total revenues	$ —	$ 55,795	$ 449,608	$ (16,977)	$ 488,426
Cost of revenues	—	33,805	391,772	(8,976)	416,601
Selling, general and administrative	—	10,823	166,276	(8,001)	169,098
Total operating expenses	—	44,628	558,048	(16,977)	585,699
Other income (expense), net	(250,732)	7,819	(20,071)	264,012	1,028
Interest expense on external borrowings	—	(24,491)	(69)	—	(24,560)
Loss from continuing operations before income taxes (benefit)	(250,732)	(5,505)	(128,580)	264,012	(120,805)
Income taxes (benefit)	(5,087)	15,600	111,607	—	122,120
Net loss from continuing operations	(245,645)	(21,105)	(240,187)	264,012	(242,925)
Net loss from discontinued operations	—	(2,720)	—	—	(2,720)
Net loss	(245,645)	(23,825)	(240,187)	264,012	(245,645)
Other comprehensive income	4,848	—	4,848	(4,848)	4,848
Comprehensive loss	$ (240,797)	$ (23,825)	$ (235,339)	$ 259,164	$ (240,797)

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CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS (in 000s)

Nine months ended January 31, 2019	H&R Block, Inc (Guarantor)	Block Financial (Issuer)	Other Subsidiaries	Eliminations	Consolidated H&R Block
Total revenues	$ —	$ 81,751	$ 706,775	$ (26,088)	$ 762,438
Cost of revenues	—	46,580	859,759	(12,938)	893,401
Selling, general and administrative	1,476	16,444	399,747	(13,150)	404,517
Total operating expenses	1,476	63,024	1,259,506	(26,088)	1,297,918
Other income (expense), net	(465,085)	27,748	6,498	442,114	11,275
Interest expense on external borrowings	—	(65,082)	(132)	—	(65,214)
Loss from continuing operations before income tax benefit	(466,561)	(18,607)	(546,365)	442,114	(589,419)
Income tax benefit	(11,161)	(5,942)	(132,803)	—	(149,906)
Net loss from continuing operations	(455,400)	(12,665)	(413,562)	442,114	(439,513)
Net loss from discontinued operations	—	(15,887)	—	—	(15,887)
Net loss	(455,400)	(28,552)	(413,562)	442,114	(455,400)
Other comprehensive loss	(3,339)	—	(3,339)	3,339	(3,339)
Comprehensive loss	$ (458,739)	$ (28,552)	$ (416,901)	$ 445,453	$ (458,739)

(in 000s)

Nine months ended January 31, 2018	H&R Block, Inc (Guarantor)	Block Financial (Issuer)	Other Subsidiaries	Eliminations	Consolidated H&R Block
Total revenues	$ —	$ 85,056	$ 704,762	$ (22,736)	$ 767,082
Cost of revenues	—	46,769	846,685	(9,119)	884,335
Selling, general and administrative	—	17,614	377,196	(13,617)	381,193
Total operating expenses	—	64,383	1,223,881	(22,736)	1,265,528
Other income (expense), net	(538,995)	20,884	(33,710)	555,080	3,259
Interest expense on external borrowings	—	(66,873)	(229)	—	(67,102)
Loss from continuing operations before income taxes (benefit)	(538,995)	(25,316)	(553,058)	555,080	(562,289)
Income taxes (benefit)	(9,217)	9,987	(44,004)	—	(43,234)
Net loss from continuing operations	(529,778)	(35,303)	(509,054)	555,080	(519,055)
Net loss from discontinued operations	—	(10,721)	(2)	—	(10,723)
Net loss	(529,778)	(46,024)	(509,056)	555,080	(529,778)
Other comprehensive income	5,925	—	5,925	(5,925)	5,925
Comprehensive loss	$ (523,853)	$ (46,024)	$ (503,131)	$ 549,155	$ (523,853)

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CONDENSED CONSOLIDATING BALANCE SHEETS (in 000s)

As of January 31, 2019	H&R Block, Inc. (Guarantor)	Block Financial (Issuer)	Other Subsidiaries	Eliminations	Consolidated H&R Block
Cash & cash equivalents	$ —	$ 4,722	$ 198,504	$ —	$ 203,226
Cash & cash equivalents - restricted	—	—	101,903	—	101,903
Receivables, net	—	392,257	365,960	—	758,217
Income taxes receivable	2,811	—	33,675	—	36,486
Prepaid expenses and other current assets	—	2,637	132,183	—	134,820
Total current assets	2,811	399,616	832,225	—	1,234,652
Property and equipment, net	—	466	220,039	—	220,505
Intangible assets, net	—	—	356,952	—	356,952
Goodwill	—	—	520,005	—	520,005
Deferred tax assets and income taxes receivable	1,794	17,941	121,631	—	141,366
Investments in subsidiaries	2,485,857	—	102,763	(2,588,620)	—
Amounts due from affiliates	—	1,559,416	2,679,945	(4,239,361)	—
Other noncurrent assets	—	57,230	38,096	—	95,326
Total assets	$ 2,490,462	$ 2,034,669	$ 4,871,656	$ (6,827,981)	$ 2,568,806
Accounts payable and accrued expenses	$ 14,823	$ 18,475	$ 168,803	$ —	$ 202,101
Accrued salaries, wages and payroll taxes	—	1,333	139,569	—	140,902
Accrued income taxes and reserves for uncertain tax positions	—	1,060	47,949	—	49,009
Deferred revenue and other current liabilities	—	28,441	167,193	—	195,634
Total current liabilities	14,823	49,309	523,514	—	587,646
Long-term debt and line of credit borrowings	—	1,876,989	—	—	1,876,989
Deferred tax liabilities and reserves for uncertain tax positions	9,285	3,989	200,943	—	214,217
Deferred revenue and other noncurrent liabilities	—	1,619	101,926	—	103,545
Amounts due to affiliates	2,679,945	—	1,559,416	(4,239,361)	—
Total liabilities	2,704,053	1,931,906	2,385,799	(4,239,361)	2,782,397
Stockholders' equity (deficiency)	(213,591)	102,763	2,485,857	(2,588,620)	(213,591)
Total liabilities and stockholders' equity	$ 2,490,462	$ 2,034,669	$ 4,871,656	$ (6,827,981)	$ 2,568,806

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CONDENSED CONSOLIDATING BALANCE SHEETS (in 000s)

As of January 31, 2018	H&R Block, Inc. (Guarantor)	Block Financial (Issuer)	Other Subsidiaries	Eliminations	Consolidated H&R Block
Cash & cash equivalents	$ —	$ 4,475	$ 182,891	$—	$ 187,366
Cash & cash equivalents - restricted	—	—	83,033	—	83,033
Receivables, net	—	396,046	395,572	—	791,618
Income taxes receivable	3,250	—	69,525	—	72,775
Prepaid expenses and other current assets	—	2,908	146,441	—	149,349
Total current assets	3,250	403,429	877,462	—	1,284,141
Property and equipment, net	—	814	249,097	—	249,911
Intangible assets, net	—	—	390,993	—	390,993
Goodwill	—	—	504,789	—	504,789
Deferred tax assets and income taxes receivable	—	20,427	4,878	—	25,305
Investments in subsidiaries	1,655,160	—	67,690	(1,722,850)	—
Amounts due from affiliates	—	1,910,351	2,335,670	(4,246,021)	—
Other noncurrent assets	—	66,497	39,664	—	106,161
Total assets	$ 1,658,410	$ 2,401,518	$ 4,470,243	$ (5,968,871)	$ 2,561,300
Accounts payable and accrued expenses	$ 2,516	$ 15,514	$ 145,623	$—	$ 163,653
Accrued salaries, wages and payroll taxes	—	954	134,672		