

H&R BLOCK INC  
Form 10-Q  
March 11, 2016  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q  
(Mark One)

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

For the quarterly period ended January 31, 2016

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-6089

H&R Block, Inc.

(Exact name of registrant as specified in its charter)

MISSOURI

44-0607856

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer  
Identification No.)

One H&R Block Way, Kansas City, Missouri 64105

(Address of principal executive offices, including zip code)

(816) 854-3000

(Registrant's telephone number, including area code)

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

Yes ☒ No ☐

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

Yes ☒ No ☐

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

Large accelerated filer ☐ 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 number of shares outstanding of the registrant's Common Stock, without par value, at the close of business on February 29, 2016: 224,405,675 shares.

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Form 10-Q for the Period Ended January 31, 2016

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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<br>31, |              | Nine months ended January 31, |               |
|-----------------------------------------------------------------------------------------------------|-----------------------------------|--------------|-------------------------------|---------------|
|                                                                                                     | 2016                              | 2015         | 2016                          | 2015          |
| <b>REVENUES:</b>                                                                                    |                                   |              |                               |               |
| Service revenues                                                                                    | \$389,502                         | \$406,441    | \$621,356                     | \$637,356     |
| Royalty, product and other revenues                                                                 | 85,041                            | 102,633      | 119,320                       | 139,932       |
|                                                                                                     | 474,543                           | 509,074      | 740,676                       | 777,288       |
| <b>OPERATING EXPENSES:</b>                                                                          |                                   |              |                               |               |
| Cost of revenues:                                                                                   |                                   |              |                               |               |
| Compensation and benefits                                                                           | 181,915                           | 186,656      | 300,398                       | 307,892       |
| Occupancy and equipment                                                                             | 96,201                            | 92,303       | 281,107                       | 263,235       |
| Provision for bad debt and loan losses                                                              | 35,734                            | 39,283       | 38,921                        | 44,032        |
| Depreciation and amortization                                                                       | 28,795                            | 29,181       | 84,237                        | 82,695        |
| Other                                                                                               | 49,868                            | 47,255       | 127,759                       | 116,247       |
|                                                                                                     | 392,513                           | 394,678      | 832,422                       | 814,101       |
| Selling, general and administrative:                                                                |                                   |              |                               |               |
| Marketing and advertising                                                                           | 93,708                            | 87,569       | 115,204                       | 108,227       |
| Compensation and benefits                                                                           | 63,653                            | 60,380       | 179,915                       | 175,697       |
| Depreciation and amortization                                                                       | 16,508                            | 14,110       | 43,509                        | 33,211        |
| Other selling, general and administrative                                                           | 28,003                            | 27,488       | 97,283                        | 66,991        |
|                                                                                                     | 201,872                           | 189,547      | 435,911                       | 384,126       |
| Total operating expenses                                                                            | 594,385                           | 584,225      | 1,268,333                     | 1,198,227     |
| Other income, net                                                                                   | 3,055                             | 304          | 13,993                        | 827           |
| Interest expense on borrowings                                                                      | (23,573)                          | ) (9,048)    | ) (46,329)                    | ) (36,686)    |
| Other expenses, net                                                                                 | (6,140)                           | ) (6,970)    | ) (11,335)                    | ) (10,456)    |
| Loss from continuing operations before income tax benefit                                           | (146,500)                         | ) (90,865)   | ) (571,328)                   | ) (467,254)   |
| Income tax benefit                                                                                  | (67,851)                          | ) (55,554)   | ) (253,656)                   | ) (209,865)   |
| Net loss from continuing operations                                                                 | (78,649)                          | ) (35,311)   | ) (317,672)                   | ) (257,389)   |
| Net loss from discontinued operations, net of tax benefits of \$1,776, \$1,016, \$5,085 and \$4,814 | (3,080)                           | ) (1,637)    | ) (8,723)                     | ) (7,789)     |
| NET LOSS                                                                                            | \$(81,729)                        | ) \$(36,948) | ) \$(326,395)                 | ) \$(265,178) |
| <b>BASIC AND DILUTED LOSS PER SHARE:</b>                                                            |                                   |              |                               |               |
| Continuing operations                                                                               | \$(0.34)                          | ) \$(0.13)   | ) \$(1.23)                    | ) \$(0.94)    |
| Discontinued operations                                                                             | (0.01)                            | ) —          | ) (0.04)                      | ) (0.03)      |
| Consolidated                                                                                        | \$(0.35)                          | ) \$(0.13)   | ) \$(1.27)                    | ) \$(0.97)    |
| <b>DIVIDENDS DECLARED PER SHARE</b>                                                                 |                                   |              |                               |               |
|                                                                                                     | \$0.20                            | \$0.20       | \$0.60                        | \$0.60        |
| <b>COMPREHENSIVE LOSS:</b>                                                                          |                                   |              |                               |               |
| Net loss                                                                                            | \$(81,729)                        | ) \$(36,948) | ) \$(326,395)                 | ) \$(265,178) |

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Unrealized gains (losses) on securities, net of taxes:

|                                                             |           |   |           |        |            |              |
|-------------------------------------------------------------|-----------|---|-----------|--------|------------|--------------|
| Unrealized holding gains (losses) arising during the period | (13       | ) | 2,147     | (3,523 | )          | 6,917        |
| Reclassification adjustment for gains included in income    | —         |   | —         | (4,983 | )          | (15          |
| Change in foreign currency translation adjustments          | (4,628    | ) | (9,987    | )      | (14,083    | ) (13,342    |
| Other comprehensive loss                                    | (4,641    | ) | (7,840    | )      | (22,589    | ) (6,440     |
| Comprehensive loss                                          | \$(86,370 | ) | \$(44,788 | )      | \$(348,984 | ) \$(271,618 |

See accompanying notes to consolidated financial statements.

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| CONSOLIDATED BALANCE SHEETS                                                                                                                        | (unaudited, in 000s, except<br>share and per share amounts) |                     |                |
|----------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------|---------------------|----------------|
|                                                                                                                                                    | January 31, 2016                                            | January 31,<br>2015 | April 30, 2015 |
| As of                                                                                                                                              |                                                             |                     |                |
| <b>ASSETS</b>                                                                                                                                      |                                                             |                     |                |
| Cash and cash equivalents                                                                                                                          | \$189,511                                                   | \$1,321,134         | \$2,007,190    |
| Cash and cash equivalents - restricted                                                                                                             | 69,649                                                      | 51,085              | 91,972         |
| Receivables, less allowance for doubtful accounts of<br>\$47,234, \$49,859 and \$54,527                                                            | 829,774                                                     | 777,453             | 167,964        |
| Deferred tax assets and income taxes receivable                                                                                                    | 29,411                                                      | 167,826             | 174,267        |
| Prepaid expenses and other current assets                                                                                                          | 101,169                                                     | 92,976              | 70,283         |
| Investments in available-for-sale securities                                                                                                       | 1,145                                                       | 367,845             | 439,625        |
| Total current assets                                                                                                                               | 1,220,659                                                   | 2,778,319           | 2,951,301      |
| Mortgage loans held for investment, less allowance for loan<br>losses of \$6,931, \$9,375 and \$7,886                                              | 212,106                                                     | 245,663             | 239,338        |
| Property and equipment, at cost, less accumulated<br>depreciation and amortization of \$585,419, \$509,039 and<br>\$518,797                        | 290,202                                                     | 308,805             | 311,387        |
| Intangible assets, net                                                                                                                             | 473,732                                                     | 443,329             | 432,142        |
| Goodwill                                                                                                                                           | 443,418                                                     | 442,961             | 441,831        |
| Deferred tax assets and income taxes receivable                                                                                                    | 113,887                                                     | 13,441              | 13,461         |
| Other noncurrent assets                                                                                                                            | 120,042                                                     | 146,423             | 125,960        |
| Total assets                                                                                                                                       | \$2,874,046                                                 | \$4,378,941         | \$4,515,420    |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                                                                                        |                                                             |                     |                |
| <b>LIABILITIES:</b>                                                                                                                                |                                                             |                     |                |
| Commercial paper borrowings                                                                                                                        | \$—                                                         | \$591,486           | \$—            |
| Customer banking deposits                                                                                                                          | —                                                           | 1,286,216           | 744,241        |
| Accounts payable and accrued expenses                                                                                                              | 205,981                                                     | 172,328             | 231,322        |
| Accrued salaries, wages and payroll taxes                                                                                                          | 123,289                                                     | 118,512             | 144,744        |
| Accrued income taxes and reserves for uncertain tax<br>positions                                                                                   | 8,099                                                       | 1,619               | 434,684        |
| Current portion of long-term debt                                                                                                                  | 817                                                         | 781                 | 790            |
| Deferred revenue and other current liabilities                                                                                                     | 250,846                                                     | 300,162             | 322,508        |
| Total current liabilities                                                                                                                          | 589,032                                                     | 2,471,104           | 1,878,289      |
| Long-term debt                                                                                                                                     | 2,626,933                                                   | 505,460             | 505,298        |
| Deferred tax liabilities and reserves for uncertain tax<br>positions                                                                               | 88,377                                                      | 144,036             | 142,586        |
| Deferred revenue and other noncurrent liabilities                                                                                                  | 106,438                                                     | 111,956             | 156,298        |
| Total liabilities                                                                                                                                  | 3,410,780                                                   | 3,232,556           | 2,682,471      |
| <b>COMMITMENTS AND CONTINGENCIES</b>                                                                                                               |                                                             |                     |                |
| <b>STOCKHOLDERS' EQUITY:</b>                                                                                                                       |                                                             |                     |                |
| Common stock, no par, stated value \$.01 per share,<br>800,000,000 shares authorized, shares issued<br>of 264,117,966, 316,628,110 and 316,628,110 | 2,641                                                       | 3,166               | 3,166          |
| Additional paid-in capital                                                                                                                         | 758,491                                                     | 778,845             | 783,793        |
| Accumulated other comprehensive income (loss)                                                                                                      | (20,849)                                                    | ) (1,263            | ) 1,740        |
| Retained earnings (deficit)                                                                                                                        | (510,000)                                                   | ) 1,158,376         | 1,836,442      |
|                                                                                                                                                    | (767,017)                                                   | ) (792,739          | ) (792,192     |

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Less treasury shares, at cost, of 39,712,709, 41,384,132 and  
41,353,479

|                                            |             |             |             |
|--------------------------------------------|-------------|-------------|-------------|
| Total stockholders' equity (deficiency)    | (536,734    | ) 1,146,385 | 1,832,949   |
| Total liabilities and stockholders' equity | \$2,874,046 | \$4,378,941 | \$4,515,420 |

See accompanying notes to consolidated financial statements.

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| CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS                                |            | (unaudited, in 000s) |                  |
|--------------------------------------------------------------------------------|------------|----------------------|------------------|
| Nine months ended January 31,                                                  |            | 2016                 | 2015             |
| NET CASH USED IN OPERATING ACTIVITIES                                          |            | \$(1,426,949         | ) \$(1,247,200 ) |
| CASH FLOWS FROM INVESTING ACTIVITIES:                                          |            |                      |                  |
| Sales, maturities of and payments received on available-for-sale securities    | 436,380    |                      | 68,013           |
| Principal payments on mortgage loans held for investment, net                  | 24,664     |                      | 18,098           |
| Capital expenditures                                                           | (66,418    | )                    | (98,876 )        |
| Payments made for business acquisitions, net of cash acquired                  | (85,329    | )                    | (112,163 )       |
| Franchise loans:                                                               |            |                      |                  |
| Loans funded                                                                   | (21,377    | )                    | (48,013 )        |
| Payments received                                                              | 22,234     |                      | 34,164           |
| Other, net                                                                     | 3,887      |                      | 6,079            |
| Net cash provided by (used in) investing activities                            | 314,041    |                      | (132,698 )       |
| CASH FLOWS FROM FINANCING ACTIVITIES:                                          |            |                      |                  |
| Repayments of commercial paper and other short-term borrowings                 | —          |                      | (457,576 )       |
| Proceeds from issuance of commercial paper and other short-term borrowings     | —          |                      | 1,049,062        |
| Repayments of long-term debt                                                   | (225,000   | )                    | (400,000 )       |
| Proceeds from issuance of long-term debt                                       | 2,346,831  |                      | —                |
| Customer banking deposits, net                                                 | (326,705   | )                    | 515,015          |
| Transfer of HRB Bank deposits                                                  | (419,028   | )                    | —                |
| Dividends paid                                                                 | (157,530   | )                    | (164,905 )       |
| Repurchase of common stock, including shares surrendered                       | (1,888,595 | )                    | (10,355 )        |
| Proceeds from exercise of stock options                                        | 25,803     |                      | 16,026           |
| Other, net                                                                     | (43,972    | )                    | (15,993 )        |
| Net cash provided by (used in) financing activities                            | (688,196   | )                    | 531,274          |
| Effects of exchange rate changes on cash                                       | (16,575    | )                    | (15,549 )        |
| Net decrease in cash and cash equivalents                                      | (1,817,679 | )                    | (864,173 )       |
| Cash and cash equivalents at beginning of the period                           | 2,007,190  |                      | 2,185,307        |
| Cash and cash equivalents at end of the period                                 | \$189,511  |                      | \$1,321,134      |
| SUPPLEMENTARY CASH FLOW DATA:                                                  |            |                      |                  |
| Income taxes paid, net of refunds received                                     | \$157,691  |                      | \$201,374        |
| Interest paid on borrowings                                                    | 32,772     |                      | 43,561           |
| Transfers of foreclosed loans to other assets                                  | 2,515      |                      | 3,240            |
| Accrued additions to property and equipment                                    | 4,385      |                      | 1,986            |
| Conversion of investment in preferred stock to available-for-sale common stock | —          |                      | 5,000            |
| Accrued purchase of common stock                                               | 21,167     |                      | —                |

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, 2016 and 2015, the consolidated statements of operations and comprehensive loss for the three and nine months ended January 31, 2016 and 2015, and the condensed consolidated statements of cash flows for the nine months ended January 31, 2016 and 2015 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, 2016 and 2015 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 U. S. (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, 2015 Annual Report to Shareholders on Form 10-K. All amounts presented herein as of April 30, 2015 or for the year then ended are derived from our April 30, 2015 Annual Report to Shareholders on Form 10-K.

In connection with the deregistration of H&R Block, Inc., H&R Block Group, Inc. and Block Financial, LLC as savings and loan holding companies (SLHCs), as discussed further in note 2, we no longer present interest income on mortgage loans held for investment and various other investments as revenues. Effective September 1, 2015, these amounts are prospectively reported in other income on the consolidated statements of operations and comprehensive loss.

**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, valuation allowances on deferred tax assets, 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 January 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 12 and 13 for additional information on litigation, claims and other loss contingencies related to our discontinued operations.

**NEW ACCOUNTING PRONOUNCEMENTS** – In November 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2015-17, "Balance Sheet Classification of Deferred Taxes," (ASU 2015-17) which requires that deferred tax liabilities and assets be classified as noncurrent. The new standard is effective for us on May 1, 2017, with early adoption permitted. This guidance may be applied either prospectively, or retrospectively to all periods presented. We elected to adopt this guidance as of November 1, 2015, and applied it prospectively. As such, prior periods have not been adjusted. This guidance did not have a material effect on our consolidated financial statements.

NOTE 2: DIVESTITURE OF H&R BLOCK BANK

On August 4, 2015, H&R Block Bank (HRB Bank), Block Financial LLC, the sole shareholder of HRB Bank (Block Financial), and BofI Federal Bank, a federal savings bank (BoFI), received regulatory approvals for a definitive Amended and Restated Purchase and Assumption Agreement pursuant to which we agreed to sell certain assets and liabilities, including all of the deposit liabilities of HRB Bank, to BoFI (P&A Transaction).

On August 31, 2015, we completed the P&A Transaction and made a net cash payment to BoFI of \$419 million, which was approximately equal to the carrying value of the liabilities (including all deposit liabilities) assumed by BoFI.



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In connection with the closing, we sold the available-for-sale (AFS) securities previously held by HRB Bank. We received proceeds of \$388.0 million and recognized gains of \$8.4 million on these sales.

On the closing date of the P&A Transaction, HRB Bank converted from a federal savings bank to a national banking association, merged with and into its parent company, Block Financial, surrendered its bank charter and ceased to exist as a bank. As a result, effective August 31, 2015, neither we nor any of our subsidiaries are subject to minimum regulatory capital requirements or to regulation as a bank by the Office of the Comptroller of the Currency (OCC). In addition, H&R Block, Inc., H&R Block Group, Inc. and Block Financial (collectively, our Holding Companies) were SLHCs because they controlled HRB Bank. As a result of the P&A Transaction and related actions, our Holding Companies have ceased to be SLHCs and have deregistered as SLHCs under Section 10(b) of the Home Owner's Loan Act. Effective August 31, 2015, our Holding Companies are no longer subject to regulatory capital requirements applicable to SLHCs or regulation by the Board of Governors of the Federal Reserve System (Federal Reserve).

**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 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 4.6 million shares for the three and nine months ended January 31, 2016, and 5.3 million shares for the three and nine months ended January 31, 2015, as the effect would be antidilutive due to the net loss from continuing operations during those periods.

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

|                                                                                | Three months ended January 31, |             | Nine months ended January 31, |              |
|--------------------------------------------------------------------------------|--------------------------------|-------------|-------------------------------|--------------|
|                                                                                | 2016                           | 2015        | 2016                          | 2015         |
| Net loss from continuing operations attributable to shareholders               | \$(78,649                      | ) \$(35,311 | ) \$(317,672                  | ) \$(257,389 |
| Amounts allocated to participating securities                                  | (112                           | ) (105      | ) (316                        | ) (291       |
| Net loss from continuing operations attributable to common shareholders        | \$(78,761                      | ) \$(35,416 | ) \$(317,988                  | ) \$(257,680 |
| Basic weighted average common shares                                           | 231,904                        | 275,190     | 257,979                       | 274,957      |
| Potential dilutive shares                                                      | —                              | —           | —                             | —            |
| Dilutive weighted average common shares                                        | 231,904                        | 275,190     | 257,979                       | 274,957      |
| Loss per share from continuing operations attributable to common shareholders: |                                |             |                               |              |
| Basic                                                                          | \$(0.34                        | ) \$(0.13   | ) \$(1.23                     | ) \$(0.94    |
| Diluted                                                                        | (0.34                          | ) (0.13     | ) (1.23                       | ) (0.94      |

The weighted average shares outstanding for the three and nine months ended January 31, 2016 decreased to 231.9 million and 258.0 million, respectively, from 275.2 million and 275.0 million for the three and nine months ended January 31, 2015, respectively, primarily due to share repurchases completed in the current year. In September 2015, we announced that our Board of Directors approved a new \$3.5 billion share repurchase program, effective through June 2019. During the nine months ended January 31, 2016, we purchased and immediately retired 52.5 million shares of our common stock at an aggregate cost of \$1.9 billion (average price of \$36.02 per share). The cost of shares retired during the current period was allocated to the components of stockholders' equity as follows:



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|                            | (in 000s)   |
|----------------------------|-------------|
| Common stock               | \$525       |
| Additional paid-in-capital | 31,506      |
| Retained earnings          | 1,859,807   |
| Total                      | \$1,891,838 |

**STOCK-BASED COMPENSATION** – In addition to the shares repurchased as discussed above, during the nine months ended January 31, 2016, we acquired 0.6 million shares of our common stock at an aggregate cost of \$17.9 million. These shares represent shares swapped or surrendered to us in connection with the vesting or exercise of stock-based awards. During the nine months ended January 31, 2015, we acquired 0.3 million shares at an aggregate cost of \$10.4 million for similar purposes.

During the nine months ended January 31, 2016 and 2015, we issued 2.2 million and 1.3 million shares of common stock, respectively, due to the vesting or exercise of stock-based awards.

During the nine months ended January 31, 2016, we granted equity awards equivalent to 1.1 million shares under our stock-based compensation plans, consisting primarily of nonvested units. Nonvested units generally either vest over a three-year period with one-third vesting each year or cliff vest at the end of a three-year period, although the Compensation Committee may from time-to-time in limited circumstances approve grants with a modified vesting schedule as a special award. Stock-based compensation expense of our continuing operations totaled \$7.2 million and \$21.1 million for the three and nine months ended January 31, 2016, respectively, and \$6.1 million and \$20.7 million for the three and nine months ended January 31, 2015, respectively. As of January 31, 2016, unrecognized compensation cost for stock options totaled \$0.5 million, and for nonvested shares and units totaled \$38.8 million.

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OTHER COMPREHENSIVE INCOME (LOSS) – Components of other comprehensive income (loss) include foreign currency translation adjustments and the change in net unrealized gains or losses on AFS marketable securities, and are as follows:

(in 000s)

|                                                             | Foreign Currency<br>Translation<br>Adjustments | Unrealized Gain<br>(Loss) on AFS<br>Securities | Total      |   |
|-------------------------------------------------------------|------------------------------------------------|------------------------------------------------|------------|---|
| Balances as of May 1, 2015                                  | \$ (6,789                                      | ) \$ 8,529                                     | \$ 1,740   |   |
| Other comprehensive income (loss) before reclassifications: |                                                |                                                |            |   |
| Gross losses arising during the period                      | (14,083                                        | ) (5,790                                       | ) (19,873  | ) |
| Income taxes                                                | —                                              | (2,267                                         | ) (2,267   | ) |
|                                                             | (14,083                                        | ) (3,523                                       | ) (17,606  | ) |
| Amounts reclassified to net income:                         |                                                |                                                |            |   |
| Gross amount reclassified                                   | —                                              | (8,196                                         | ) (8,196   | ) |
| Income taxes                                                | —                                              | (3,213                                         | ) (3,213   | ) |
|                                                             | —                                              | (4,983                                         | ) (4,983   | ) |
| Net other comprehensive loss                                | (14,083                                        | ) (8,506                                       | ) (22,589  | ) |
| Balances as of January 31, 2016                             | \$ (20,872                                     | ) \$ 23                                        | \$ (20,849 | ) |
| Balances as of May 1, 2014                                  | \$ 3,334                                       | \$ 1,843                                       | \$ 5,177   |   |
| Other comprehensive income (loss) before reclassifications: |                                                |                                                |            |   |
| Gross gains (losses) arising during the period              | (13,342                                        | ) 11,389                                       | (1,953     | ) |
| Income taxes                                                | —                                              | 4,472                                          | 4,472      |   |
|                                                             | (13,342                                        | ) 6,917                                        | (6,425     | ) |
| Amounts reclassified to net income:                         |                                                |                                                |            |   |
| Gross amount reclassified                                   | —                                              | (24                                            | ) (24      | ) |
| Income taxes                                                | —                                              | (9                                             | ) (9       | ) |
|                                                             | —                                              | (15                                            | ) (15      | ) |
| Net other comprehensive income (loss)                       | (13,342                                        | ) 6,902                                        | (6,440     | ) |
| Balances as of January 31, 2015                             | \$ (10,008                                     | ) \$ 8,745                                     | \$ (1,263  | ) |

Gross gains and losses reclassified out of accumulated other comprehensive income are included in other income and other expense, respectively, in the consolidated statements of operations and comprehensive loss.

**NOTE 4: RECEIVABLES**

Receivables consist of the following:

(in 000s)

| As of                                            | January 31, 2016 |           | January 31, 2015 |           | April 30, 2015 |           |
|--------------------------------------------------|------------------|-----------|------------------|-----------|----------------|-----------|
|                                                  | Short-term       | Long-term | Short-term       | Long-term | Short-term     | Long-term |
| Loans to franchisees                             | \$ 63,093        | \$ 62,431 | \$ 71,420        | \$ 84,770 | \$ 56,603      | \$ 64,472 |
| Receivables for tax preparation and related fees | 278,735          | 6,103     | 234,056          | —         | 48,864         | 6,103     |
| Cash Back® receivables                           | 5,427            | —         | 7,130            | —         | 42,680         | —         |
| Emerald Advance lines of credit                  | 402,946          | 268       | 370,041          | 2,254     | 21,908         | 1,913     |
| Royalties from franchisees                       | 60,182           | —         | 68,486           | —         | 8,206          | —         |
| Other                                            | 66,625           | 7,669     | 76,179           | 15,404    | 44,230         | 8,379     |
|                                                  | 877,008          | 76,471    | 827,312          | 102,428   | 222,491        | 80,867    |
|                                                  | (47,234          | ) —       | (49,859          | ) —       | (54,527        | ) —       |

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Allowance for doubtful  
accounts

|           |          |           |           |           |          |
|-----------|----------|-----------|-----------|-----------|----------|
| \$829,774 | \$76,471 | \$777,453 | \$102,428 | \$167,964 | \$80,867 |
|-----------|----------|-----------|-----------|-----------|----------|

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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 as of January 31, 2016 and 2015 and April 30, 2015, consisted of \$48.6 million, \$55.9 million and \$40.3 million, respectively, in revolving lines of credit primarily for the purpose of funding off-season working capital needs and \$76.9 million, \$100.3 million and \$80.8 million, respectively, in term loans made primarily to finance the purchase of franchises.

As of January 31, 2016 and 2015 and April 30, 2015, loans with a principal balance of \$0.1 million, \$1.4 million and \$0.1 million, respectively, were more than 30 days past due. We had no loans to franchisees on non-accrual status.

**CANADIAN CASH BACK® PROGRAM** – Refunds advanced under the Cash Back program are not subject to credit approval, therefore the primary indicator of credit quality is the age of the receivable amount. Cash Back amounts are generally received within 60 days of filing the client's return. As of January 31, 2016 and 2015 and April 30, 2015, \$0.3 million, \$0.3 million and \$1.3 million of Cash Back balances were more than 60 days old, respectively.

**H&R BLOCK EMERALD ADVANCE® LINES OF CREDIT** – Beginning in fiscal year 2016, we no longer originate H&R Block Emerald Advance® lines of credit (EAs). These lines of credit are originated by BofI, and we purchase a participation interest in their loans.

We review the credit quality of our EA receivables based on pools, which are segregated by the year of origination, with older years being deemed more unlikely to be repaid. These amounts as of January 31, 2016, by year of origination, are as follows:

(in 000s)

Credit Quality Indicator – Year of origination:

|                 |           |
|-----------------|-----------|
| 2016            | \$372,360 |
| 2015            | 6,042     |
| 2014 and prior  | 1,216     |
| Revolving loans | 23,596    |
|                 | \$403,214 |

As of January 31, 2016 and 2015 and April 30, 2015, \$18.2 million, \$19.5 million and \$18.7 million of EAs were on non-accrual status and classified as impaired, or more than 60 days past due, respectively.

**ALLOWANCE FOR DOUBTFUL ACCOUNTS** – Activity in the allowance for doubtful accounts for our receivables for the nine months ended January 31, 2016 and 2015 is as follows:

(in 000s)

|                                 | EAs      | All Other | Total    |
|---------------------------------|----------|-----------|----------|
| Balances as of May 1, 2015      | \$7,353  | \$47,174  | \$54,527 |
| Provision                       | 22,851   | 14,135    | 36,986   |
| Charge-offs                     | —        | (44,279)  | (44,279) |
| Balances as of January 31, 2016 | \$30,204 | \$17,030  | \$47,234 |
| Balances as of May 1, 2014      | \$7,530  | \$45,048  | \$52,578 |
| Provision                       | 28,521   | 13,143    | 41,664   |
| Charge-offs                     | —        | (44,383)  | (44,383) |
| Balances as of January 31, 2015 | \$36,051 | \$13,808  | \$49,859 |

Table of Contents**NOTE 5: MORTGAGE LOANS HELD FOR INVESTMENT**

The composition of our mortgage loan portfolio is as follows:

(dollars in 000s)

| As of                               | January 31, 2016 |            | January 31, 2015 |            | April 30, 2015 |            |
|-------------------------------------|------------------|------------|------------------|------------|----------------|------------|
|                                     | Amount           | % of Total | Amount           | % of Total | Amount         | % of Total |
| Adjustable-rate loans               | \$113,617        | 52         | % \$135,481      | 54         | % \$130,182    | 53         |
| Fixed-rate loans                    | 103,632          | 48         | % 117,484        | 46         | % 115,034      | 47         |
|                                     | 217,249          | 100        | % 252,965        | 100        | % 245,216      | 100        |
| Unamortized deferred fees and costs | 1,788            |            | 2,073            |            | 2,008          |            |
| Less: Allowance for loan losses     | (6,931 )         |            | (9,375 )         |            | (7,886 )       |            |
|                                     | \$212,106        |            | \$245,663        |            | \$239,338      |            |

Our loan loss allowance as a percent of mortgage loans was 3.2% as of January 31, 2016, compared to 3.7% as of January 31, 2015 and 3.2% as of April 30, 2015.

Activity in the allowance for loan losses for the nine months ended January 31, 2016 and 2015 is as follows:

(in 000s)

| Nine months ended January 31,      | 2016     | 2015     |
|------------------------------------|----------|----------|
| Balance at beginning of the period | \$7,886  | \$11,272 |
| Provision                          | (528 )   | 1,090    |
| Recoveries                         | 1,721    | 1,155    |
| Charge-offs                        | (2,148 ) | (4,142 ) |
| Balance at end of the period       | \$6,931  | \$9,375  |

Detail of the aging of the mortgage loans in our portfolio as of January 31, 2016 is as follows:

(in 000s)

|                    | Less than 60 Days Past Due | 60 – 89 Days Past Due | 90+ Days Past Due <sup>(1)</sup> | Total Past Due | Current   | Total     |
|--------------------|----------------------------|-----------------------|----------------------------------|----------------|-----------|-----------|
| Purchased from SCC | \$9,148                    | \$440                 | \$43,428                         | \$53,016       | \$76,493  | \$129,509 |
| All other          | 2,649                      | 51                    | 6,306                            | 9,006          | 78,734    | 87,740    |
|                    | \$11,797                   | \$491                 | \$49,734                         | \$62,022       | \$155,227 | \$217,249 |

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

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## NOTE 6: GOODWILL AND INTANGIBLE ASSETS

Changes in the carrying amount of goodwill for the nine months ended January 31, 2016 and 2015 are as follows:  
(in 000s)

|                                             | Goodwill  | Accumulated<br>Impairment<br>Losses | Net         |
|---------------------------------------------|-----------|-------------------------------------|-------------|
| Balances as of April 30, 2015               | \$474,128 | \$(32,297                           | ) \$441,831 |
| Acquisitions                                | 4,025     | —                                   | 4,025       |
| Disposals and foreign currency changes, net | (2,438    | ) —                                 | (2,438      |
| Impairments                                 | —         | —                                   | —           |
| Balances as of January 31, 2016             | \$475,715 | \$(32,297                           | ) \$443,418 |
| Balances as of April 30, 2014               | \$468,414 | \$(32,297                           | ) \$436,117 |
| Acquisitions                                | 9,614     | —                                   | 9,614       |
| Disposals and foreign currency changes, net | (2,770    | ) —                                 | (2,770      |
| Impairments                                 | —         | —                                   | —           |
| Balances as of January 31, 2015             | \$475,258 | \$(32,297                           | ) \$442,961 |

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

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

|                                                         | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Net         |
|---------------------------------------------------------|-----------------------------|-----------------------------|-------------|
| As of January 31, 2016:                                 |                             |                             |             |
| Reacquired franchise rights                             | \$338,242                   | \$(63,812)                  | ) \$274,430 |
| Customer relationships                                  | 201,197                     | (96,043)                    | ) 105,154   |
| Internally-developed software                           | 126,980                     | (91,655)                    | ) 35,325    |
| Noncompete agreements                                   | 34,454                      | (25,240)                    | ) 9,214     |
| Franchise agreements                                    | 19,201                      | (9,174)                     | ) 10,027    |
| Purchased technology                                    | 54,700                      | (24,393)                    | ) 30,307    |
| Acquired assets pending final allocation <sup>(1)</sup> | 9,275                       | —                           | ) 9,275     |
|                                                         | \$784,049                   | \$(310,317)                 | ) \$473,732 |
| As of January 31, 2015:                                 |                             |                             |             |
| Reacquired franchise rights                             | \$294,587                   | \$(39,954)                  | ) \$254,633 |
| Customer relationships                                  | 169,058                     | (71,799)                    | ) 97,259    |
| Internally-developed software                           | 114,447                     | (78,063)                    | ) 36,384    |
| Noncompete agreements                                   | 30,546                      | (23,171)                    | ) 7,375     |
| Franchise agreements                                    | 19,201                      | (7,894)                     | ) 11,307    |
| Purchased technology                                    | 54,700                      | (18,329)                    | ) 36,371    |
|                                                         | \$682,539                   | \$(239,210)                 | ) \$443,329 |
| As of April 30, 2015:                                   |                             |                             |             |
| Reacquired franchise rights                             | \$294,647                   | \$(46,180)                  | ) \$248,467 |
| Customer relationships                                  | 170,851                     | (78,157)                    | ) 92,694    |
| Internally-developed software                           | 118,865                     | (80,689)                    | ) 38,176    |
| Noncompete agreements                                   | 30,630                      | (23,666)                    | ) 6,964     |
| Franchise agreements                                    | 19,201                      | (8,214)                     | ) 10,987    |
| Purchased technology                                    | 54,700                      | (19,846)                    | ) 34,854    |
|                                                         | \$688,894                   | \$(256,752)                 | ) \$432,142 |

<sup>(1)</sup> Represents recent business acquisitions, for which final purchase price allocations have not yet been determined. Amortization of intangible assets for the three and nine months ended January 31, 2016 was \$20.2 million and \$54.6 million, respectively. Amortization of intangible assets for the three and nine months ended January 31, 2015 was \$16.7 million and \$41.2 million, respectively. Estimated amortization of intangible assets for fiscal years 2016, 2017, 2018, 2019 and 2020 is \$74.9 million, \$71.3 million, \$61.2 million, \$48.4 million and \$36.4 million, respectively. The increase in intangible assets resulted primarily from acquired franchisee and competitor businesses during the period. The weighted-average life of the acquired assets is as follows:

| Assets acquired               | Weighted-Average Life (in years) |
|-------------------------------|----------------------------------|
| Reacquired franchise rights   | 7                                |
| Customer relationships        | 5                                |
| Internally-developed software | 3                                |
| Noncompete agreements         | 5                                |
| Total                         | 6                                |

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## NOTE 7: LONG-TERM DEBT

The components of long-term debt are as follows:

| As of                                   | January 31, 2016 | January 31, 2015 | (in 000s)<br>April 30, 2015 |
|-----------------------------------------|------------------|------------------|-----------------------------|
| Senior Notes, 4.125%, due October 2020  | \$648,023        | \$—              | \$—                         |
| Senior Notes, 5.500%, due November 2022 | 498,105          | 497,823          | 497,894                     |
| Senior Notes, 5.250%, due October 2025  | 348,985          | —                | —                           |
| Committed line of credit borrowings     | 1,125,000        | —                | —                           |
| Capital lease obligation                | 7,637            | 8,418            | 8,194                       |
|                                         | 2,627,750        | 506,241          | 506,088                     |
| Less: Current portion                   | (817             | ) (781           | ) (790                      |
|                                         | \$2,626,933      | \$505,460        | \$505,298                   |

On September 25, 2015, we issued \$650.0 million of 4.125% Senior Notes due October 1, 2020 (2020 Senior Notes), and \$350.0 million of 5.250% Senior Notes due October 1, 2025 (2025 Senior Notes). The Senior Notes are not redeemable by the bondholders prior to maturity, although we have the right to redeem some or all of these notes at any time, at specified redemption prices. Proceeds of the 2020 Senior Notes and 2025 Senior Notes, along with cash on hand, were used to repurchase shares, as discussed in note 3.

In September 2015, we terminated our previous committed line of credit agreement and entered into a new Credit and Guarantee Agreement (2015 CLOC). The 2015 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 \$100.0 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 therefor and meeting certain other conditions. The 2015 CLOC will mature on September 21, 2020, unless extended pursuant to the terms of the 2015 CLOC, at which time all outstanding amounts thereunder will be due and payable. The 2015 CLOC includes an annual facility fee, which will vary depending our then current credit ratings.

The 2015 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 (EBITDA-to-interest expense) ratio 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 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 2015 CLOC includes provisions for an equity cure which could potentially allow us to independently cure certain defaults. Proceeds under the 2015 CLOC may be used for working capital needs or for other general corporate purposes. We had an outstanding balance of \$1.1 billion under the 2015 CLOC as of January 31, 2016.

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## NOTE 8: FAIR VALUE

ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS – The carrying amounts and estimated fair values of our financial instruments are as follows:

(in 000s)

| As of                                   | January 31, 2016 |                      | January 31, 2015 |                      | April 30, 2015  |                      |
|-----------------------------------------|------------------|----------------------|------------------|----------------------|-----------------|----------------------|
|                                         | Carrying Amount  | Estimated Fair Value | Carrying Amount  | Estimated Fair Value | Carrying Amount | Estimated Fair Value |
| <b>Assets:</b>                          |                  |                      |                  |                      |                 |                      |
| Cash and cash equivalents               | \$189,511        | \$189,511            | \$1,321,134      | \$1,321,134          | \$2,007,190     | \$2,007,190          |
| Cash and cash equivalents - restricted  | 69,649           | 69,649               | 51,085           | 51,085               | 91,972          | 91,972               |
| Receivables, net - short-term           | 829,774          | 829,774              | 777,453          | 777,453              | 167,964         | 167,964              |
| Mortgage loans held for investment, net | 212,106          | 174,813              | 245,663          | 190,422              | 239,338         | 190,196              |
| Investments in AFS securities           | 1,145            | 1,145                | 375,728          | 375,728              | 441,709         | 441,709              |
| Receivables, net - long-term            | 76,471           | 76,471               | 102,428          | 102,428              | 80,867          | 80,867               |
| <b>Liabilities:</b>                     |                  |                      |                  |                      |                 |                      |
| Customer banking deposits               | —                | —                    | 1,286,582        | 1,273,283            | 744,699         | 737,261              |
| Long-term debt                          | 2,627,750        | 2,709,807            | 506,241          | 558,693              | 506,088         | 556,769              |
| Contingent consideration                | 13,903           | 13,903               | 12,848           | 12,848               | 10,667          | 10,667               |

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

Cash and cash equivalents, including restricted - Fair value approximates the carrying amount (Level 1).

Receivables, net - short-term - For short-term balances the carrying values reported in the balance sheet approximate fair market value due to the relative short-term nature of the respective instruments (Level 1).

Mortgage loans held for investment, net - The fair value of mortgage loans held for investment is estimated using a third-party pricing service. The fair value is determined using the present value of expected future cash flows at the asset level, assuming future prepayments and using discount factors determined by prices obtained for residential loans with similar characteristics in the secondary market, as discounted for illiquid assets. Quarterly, we perform analytics to assess the reasonableness of the fair value received from the third-party pricing service based on changes in the portfolio and changes in market conditions. We evaluate whether adjustments to third-party pricing is necessary and historically, we have not made adjustments to prices obtained from our third-party pricing service (Level 3).

Investments in AFS securities - For mortgage-backed securities, we historically used a third-party pricing service to determine fair value. The service's pricing model was based on market data and utilizes available trade, bid and other market information for similar securities (Level 2). The fair value of our investment in common stock was determined based on quoted market prices (Level 1).

Receivables, net - long-term - The carrying values for the long-term portion of loans to franchisees approximate fair market value due to variable interest rates, low historical delinquency rates and franchise territories serving as collateral (Level 1). Long-term EA receivables are carried at net realizable value which approximates fair value (Level 3). Net realizable value is determined based on historical collection rates.

Customer banking deposits - The fair value of deposits with no stated maturity, such as non-interest-bearing demand deposits, checking, money market and savings accounts, was equal to the amount payable on demand (Level 1). The fair value of IRAs and other time deposits was estimated by discounting the future cash flows using the rates offered by HRB Bank for products with similar remaining maturities (Level 3).

Long-term debt - The fair value of our Senior Notes is based on quotes from multiple banks (Level 2). For outstanding balances on the 2015 CLOC, fair value approximates the carrying amount (Level 1).

Contingent consideration - Fair value approximates the carrying amount (Level 3).

### NOTE 9: INCOME TAXES

We file a consolidated federal income tax return in the United States (U.S.) with the Internal Revenue Service (IRS) and file tax returns in various state and foreign jurisdictions. Tax returns are typically examined and settled upon completion of the examination, with tax controversies settled either at the exam level or through the appeals process. The Company currently does not have a U.S. federal return under examination; however, our U.S. federal return for calendar 2013 and future returns for all subsequent periods are open to examination. Additionally, the Company is either currently under examination or open to examination in all U.S. states that impose a corporate income tax.

We had gross unrecognized tax benefits of \$75.2 million, \$79.3 million and \$86.3 million as of January 31, 2016 and 2015 and April 30, 2015, respectively. The gross unrecognized tax benefits decreased \$11.0 million and \$32.2 million during the nine months ended January 31, 2016 and 2015, respectively. The decrease in unrecognized tax benefits during the nine months ending January 31, 2016 is related to a law change enacted in the state of Missouri which resulted in a clarification of certain prior year state income tax positions, closure of audits with state taxing authorities and the expiration of statutes of limitations in multiple states. These decreases were partially offset by increases in uncertain tax positions attributable to various current and prior year federal and state tax positions taken or expected to be taken in our income tax returns.

We believe it is reasonably possible that the balance of unrecognized tax benefits could decrease by approximately \$9.7 million within the next twelve months. The anticipated decrease is due to the expiration of statutes of limitations and anticipated closure of various state matters currently under exam. The portion of unrecognized benefits expected to be cash settled within the next twelve months is included in accrued income taxes and reserves for uncertain tax positions on our consolidated balance sheet. The remaining liability for uncertain tax positions is classified as long-



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term and is included in deferred tax liabilities and reserves for uncertain tax positions on the consolidated balance sheet.

Consistent with prior years, our pretax loss for the nine months ended January 31, 2016 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 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 reflects management's estimate of the annual effective tax rate applied to the year-to-date loss from continuing operations. Certain discrete tax adjustments are also reflected in income tax expense for the periods presented.

A discrete income tax benefit of \$36.2 million was recorded in the nine months ended January 31, 2016, compared to a discrete tax benefit of \$30.9 million in the same period of the prior year. The discrete tax benefit recorded in the current fiscal year resulted primarily from a law change enacted in the State of Missouri which allows for the reduction of tax from our two prior fiscal years that was included on tax returns that were or will be timely filed for calendar years 2014 and 2015. The prior fiscal year discrete tax benefit was due largely to tax reserves released resulting from the expiration of statutory limitation periods.

Excluding discrete items, management's estimate of the annualized effective tax rate for the nine months ended January 31, 2016 and 2015 was 38.1% and 38.3%, respectively. Our effective tax rate for continuing operations, including the effects of discrete income tax items was 44.4% and 44.9% for the nine months ended January 31, 2016 and 2015, respectively. Due to the loss in both periods, a discrete tax benefit in either period increases the tax rate while an item of discrete tax expense decreases the tax rate. The impact of discrete tax items combined with the seasonal nature of our business can cause the effective tax rate through our third quarter to be significantly different than the rate for our full fiscal year.

**NOTE 10: OTHER INCOME AND OTHER EXPENSES**

The following table shows the components of other income and other expenses:

(in 000s)

|                                           | Three months ended January 31, |            | Nine months ended January 31, |             |
|-------------------------------------------|--------------------------------|------------|-------------------------------|-------------|
|                                           | 2016                           | 2015       | 2016                          | 2015        |
| Other income, net:                        |                                |            |                               |             |
| Mortgage loans and real estate owned, net | \$2,186                        | \$—        | \$2,220                       | \$—         |
| Interest and gains on AFS securities      | 36                             | —          | 8,804                         | —           |
| Other                                     | 833                            | 304        | 2,969                         | 827         |
|                                           | \$3,055                        | \$304      | \$13,993                      | \$827       |
| Other expenses, net:                      |                                |            |                               |             |
| Foreign currency losses                   | \$(3,516)                      | ) \$(6,883 | ) \$(8,138                    | ) \$(8,690  |
| Impairment of investments                 | (2,500)                        | ) —        | (2,500)                       | ) —         |
| Other                                     | (124)                          | ) (87      | ) (697                        | ) (1,766    |
|                                           | \$(6,140)                      | ) \$(6,970 | ) \$(11,335                   | ) \$(10,456 |

In connection with our deregistration as an SLHC, as discussed further in note 2, we no longer present interest income on mortgage loans held for investment and various other investments as revenues. Effective September 1, 2015, these amounts are prospectively reported in other income on the consolidated statements of operations and comprehensive loss.

Table of Contents**NOTE 11: COMMITMENTS AND CONTINGENCIES**

Changes in deferred revenue balances related to our Peace of Mind® Extended Service Plan (POM) issued in company-owned offices, which is included in deferred revenue and other liabilities in the consolidated balance sheets, are as follows:

(in 000s)

| Nine months ended January 31,                          | 2016      | 2015      |
|--------------------------------------------------------|-----------|-----------|
| Balance, beginning of the period                       | \$158,169 | \$145,237 |
| Amounts deferred for new extended service plans issued | 18,751    | 17,658    |
| Revenue recognized on previous deferrals               | (62,764   | ) (54,308 |
| Balance, end of the period                             | \$114,156 | \$108,587 |

We accrued \$6.2 million, \$9.0 million and \$8.4 million as of January 31, 2016 and 2015 and April 30, 2015, respectively, related to estimated losses under our standard guarantee, which is included with our standard in-office tax preparation services. The short-term and long-term portions of this liability are included in deferred revenue and other liabilities in the consolidated balance sheets, respectively. For POM in franchise offices, we deferred revenue of \$11.8 million, and recognized revenue of \$12.2 million during the nine months ended January 31, 2016. At January 31, 2016, our deferred revenue related to POM in franchise offices totaled \$31.2 million.

We have accrued estimated contingent consideration totaling \$13.9 million, \$12.8 million and \$10.7 million as of January 31, 2016 and 2015 and April 30, 2015, respectively, related to acquisitions, with the short-term amount 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 \$70.6 million at January 31, 2016, and net of amounts drawn and outstanding, our remaining commitment to fund totaled \$21.9 million.

In connection with the P&A Transaction we entered into an Emerald Advance Receivables Participation Agreement (RPA) dated August 31, 2015 with BofI. Pursuant to the RPA, we are required to purchase a 90% participation interest, at par, in all EAs originated by BofI throughout the term of the RPA. At January 31, 2016 the principal balance of purchased participation interests totaled \$374.5 million.

**NOTE 12: LITIGATION AND 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.



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

For such matters where a loss is believed to be reasonably possible, but not probable, or the loss cannot be reasonably estimated, no accrual has been made. It is possible that 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, 2016. 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 consolidated financial position, results of operations and cash flows. As of January 31, 2016 and 2015 and April 30, 2015, we accrued liabilities of \$6.2 million, \$8.9 million and \$8.9 million, respectively, for matters addressed in this note.

For some matters where a liability has not been accrued, we are able to estimate a reasonably possible loss or range of loss. This 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 matters underlying the estimated range will change from time to time, and actual results may vary significantly from the current estimate. Those matters for which an estimate is not reasonably possible are not included within this estimated range. Therefore, this estimated range of reasonably possible loss represents what we believe to be an estimate of reasonably possible loss only for certain matters meeting these criteria. It does not represent our maximum loss exposure. For those matters, and for matters where a liability has been accrued, as of January 31, 2016, 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 quantification of a damage demand from plaintiffs, discovery from other parties and investigation of factual allegations, rulings by courts on motions or appeals, analysis by experts, or the status 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 consolidated financial position, results of operations and cash flows.

**LITIGATION, CLAIMS, INCLUDING INDEMNIFICATION 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 contingencies, claims, and lawsuits include actions by regulators, third parties seeking indemnification, 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 contingencies, claims, and lawsuits 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 and contribution, breach of contract, violations of securities laws, and 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. Given the impact of the financial crisis on the non-prime

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mortgage environment, the aggregate volume of these matters is substantial although it is difficult to predict either the likelihood of new matters being initiated or the outcome of existing matters. In many of these matters, including certain of the lawsuits and claims described below, 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.

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. 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. The case is proceeding on the remaining claims. A portion of the accrual for representation and warranty claims, as discussed in note 13, is related to 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.

On April 5, 2013, a third lawsuit was filed by Homeward in the United States District Court for the Southern District of New York against SCC. The suit, styled Homeward Residential, Inc. v. Sand Canyon Corporation (Case No. 13-cv-2107), was filed as a related matter to the September 2012 Homeward suit mentioned above. In this April 2013 lawsuit, the plaintiff, in its capacity as the master servicer for Option One Mortgage Loan Trust 2007-4 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 159 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. The case is proceeding on the remaining claims. A portion of the accrual for representation and warranty claims, as discussed in note 13, is related to 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. Based on information currently available to SCC, it believes that the 22 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 \$4 billion). Because SCC has not been a party to these lawsuits (with the exception of Federal Home Loan Bank of Chicago v. Bank of America Funding Corporation, et al., filed in the

Circuit Court of Cook County, Illinois (Case No. 10CH45033) and settled as to SCC in August 2015), and has not had control of this litigation or any settlements thereof, SCC does not have precise information about the amount of damages or other remedies being asserted, the defenses to the claims in such lawsuits or the terms of any settlements of such lawsuits. SCC therefore cannot reasonably estimate the amount of potential losses or associated fees and expenses that may be incurred in

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connection with such lawsuits, which may be material. Additional lawsuits against the underwriters or depositors may be filed in the future, and SCC may receive additional notices of claims for indemnification from underwriters or depositors with respect to existing or new lawsuits or settlements of such lawsuits. Certain of the notices received included, and future notices may include, a reservation of rights, which are referred to as "reserved contribution rights," that encompasses a right of contribution which 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 claims or reserved contribution rights is probable, nor have we accrued a liability related to any of these claims or rights.

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. In connection with one lawsuit against a securitization trustee, SCC received a notice of potential indemnification obligations for one securitization with alleged losses in the amount of approximately \$91 million. SCC may receive additional notices for indemnification 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 indemnification claims by securitization trustees is probable, nor have we accrued a liability for such claims.

**LITIGATION, CLAIMS OR OTHER LOSS CONTINGENCIES PERTAINING TO CONTINUING OPERATIONS – Compliance Fee Litigation.** On April 16, 2012, a putative class action lawsuit was filed against us in the Circuit Court of Jackson County, Missouri styled Manuel H. Lopez III v. H&R Block, Inc., et al. (Case # 1216CV12290) concerning a compliance fee charged to retail tax clients in the 2011 and 2012 tax seasons. The plaintiff seeks to represent all Missouri citizens who were charged the compliance fee, and asserts claims of violation of the Missouri Merchandising Practices Act, money had and received, and unjust enrichment. We filed a motion to compel arbitration of the 2011 claims. The court denied the motion. We filed an appeal. On May 6, 2014, the Missouri Court of Appeals, Western District, reversed the ruling of the trial court and remanded the case for further consideration of the motion. On March 12, 2015, the trial court denied the motion on remand. We filed an additional appeal. On March 8, 2016, the appellate court affirmed the decision of the trial court. We have not concluded that a loss related to this matter is probable, nor have we accrued a loss contingency related to this matter.

On April 19, 2012, a putative class action lawsuit was filed against us in the United States District Court for the Western District of Missouri styled Ronald Perras v. H&R Block, Inc., et al. (Case No. 4:12-cv-00450-DGK) concerning a compliance fee charged to retail tax clients in the 2011 and 2012 tax seasons. The plaintiff originally sought to represent all persons nationwide (excluding citizens of Missouri) who were charged the compliance fee, and asserted claims of violation of various state consumer laws, money had and received, and unjust enrichment. In November 2013, the court compelled arbitration of the 2011 claims and stayed all proceedings with respect to those claims. In June 2014, the court denied class certification of the remaining 2012 claims. The plaintiff filed an appeal with the Eighth Circuit Court of Appeals, which was denied on June 18, 2015. In January 2016, the plaintiff filed an amended complaint asserting claims of violation of Missouri and California state consumer laws, money had and received, and unjust enrichment, along with a motion to certify a class of all persons (excluding citizens of Missouri) who were charged the compliance fee in the state of California. We subsequently filed a motion for summary judgment on all claims. Both motions remain pending before the court. We have not concluded that a loss related to this matter is probable, nor have we accrued a loss contingency related to this matter.

**Form 8863 Litigation.** A series of putative class action lawsuits were filed against us in various federal courts and one state court beginning on March 13, 2013. Taken together, the plaintiffs in these lawsuits purport to represent certain clients nationwide who filed Form 8863 during tax season 2013 through an H&R Block office or using H&R Block At Home® online tax services or desktop tax preparation software, and allege breach of contract, negligence and violation of state consumer laws in connection with transmission of the form. The plaintiffs seek damages, pre-judgment interest, attorneys' fees and costs. In August 2013, the plaintiff in the state court action voluntarily dismissed her case without prejudice. The Judicial Panel on Multidistrict Litigation subsequently granted our petition

to consolidate the remaining federal lawsuits for coordinated pretrial proceedings in the United States District Court for the Western District of Missouri in a proceeding styled IN RE: H&R BLOCK IRS FORM 8863 LITIGATION (MDL No. 2474/

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Case No. 4:13-MD-02474-FJG). On July 11, 2014, the MDL court granted our motion to compel arbitration for those named plaintiffs who agreed to arbitrate their claims. Plaintiffs filed a consolidated class action complaint in October 2014. We filed a motion to strike the class allegations relating to those clients who agreed to arbitration, which the court granted on January 7, 2015. The parties subsequently reached an agreement to settle the remaining claims, subject to court approval. The court granted preliminary approval of the settlement on January 12, 2016. A final approval hearing is set for May 19, 2016. A portion of our loss contingency accrual is related to this matter for the amount of loss that we consider probable and reasonably estimable.

### 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.

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

**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 a class of others 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 or 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 consolidated financial position, results of operations and cash flows.

### NOTE 13: LOSS CONTINGENCIES ARISING FROM REPRESENTATIONS AND WARRANTIES OF OUR 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 together with any settlement arrangements related to these losses are collectively referred to as "representation and warranty claims." 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 were generally securitized by such investors and 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 only if it



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breached a representation and warranty and such breach materially and adversely affects the value of the mortgage loan or certificate holder's interest in the mortgage loan.

Representation and warranty claims received by SCC have primarily related to alleged breaches of representations and warranties related to a loan's compliance with the underwriting standards established by SCC at origination and borrower fraud for loans originated in calendar years 2006 and 2007. SCC has received claims representing an original principal amount of \$2.6 billion since May 1, 2008, of which \$1.9 billion were received prior to fiscal year 2013.

**SETTLEMENT ACTIONS** – SCC has entered into tolling agreements with counterparties that have made a significant portion of previously denied representation and warranty claims. These tolling agreements toll the running of any applicable statute of limitations related to potential lawsuits regarding representation and warranty claims and other claims against SCC.

SCC has engaged in discussions with these counterparties since fiscal year 2013 regarding the bulk settlement of previously denied and potential future representation and warranty and other claims against SCC. Based on settlement discussions with these counterparties, SCC believes a bulk settlement approach, rather than the loan-by-loan resolution process, will be needed to resolve all of the claims that are the subject of these discussions. On December 5, 2014, SCC entered into a settlement agreement to resolve certain of these claims. On December 18, 2015, SCC entered into settlement agreements with two additional counterparties to resolve certain additional claims, subject to the terms and conditions set forth in the settlement agreements. The amounts paid under the settlement agreements were fully covered by prior accruals. In the event that the ongoing efforts to settle are not successful, SCC believes claim volumes may increase or litigation may result.

SCC will continue to vigorously contest any request for repurchase when it has concluded that a valid basis for repurchase does not exist. SCC's decision whether to engage in bulk settlement discussions is based on factors that vary by counterparty or type of counterparty and include the considerations used by SCC in determining its loss estimate, described below under "Liability for Estimated Contingent Losses."

**LIABILITY FOR ESTIMATED CONTINGENT LOSSES** – SCC accrues 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 subject to a high degree of management judgment and estimates may vary significantly period to period. SCC's loss estimate as of January 31, 2016, is based on the best information currently available, significant management judgment, and a number of factors that are subject to change, including developments in case law and the factors mentioned below. These factors include the terms of prior bulk settlements, the terms expected to result from ongoing bulk settlement discussions, 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, bulk settlement methodologies used and publicly disclosed by other market participants, the potential pro-rata realization of the claims as compared to all claims and other relevant facts and circumstances when developing its estimate of probable loss. SCC believes that the most significant of these factors are the terms expected to result from ongoing bulk settlement discussions, which have been primarily influenced by the bulk settlement methodologies used and publicly disclosed by other market participants and the anticipated pro-rata realization of the claims of particular counterparties as compared to the anticipated realization if all claims and litigation were resolved together with payment of SCC's related administration and legal expense. Changes in any one of the factors mentioned above could significantly impact the estimate.

The liability is included in deferred revenue and other current liabilities on the consolidated balance sheets. A rollforward of SCC's accrued liability for these loss contingencies is as follows:

(in 000s)

|                                  |           |           |
|----------------------------------|-----------|-----------|
| Nine months ended January 31,    | 2016      | 2015      |
| Balance, beginning of the period | \$149,765 | \$183,765 |
| Provisions                       | 4,000     | 10,000    |
| Payments                         | (88,500)  | (50,000)  |
| Balance, end of the period       | \$65,265  | \$143,765 |



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On June 11, 2015, the New York Court of Appeals, New York's highest court, upheld the New York intermediate appellate court 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. It is possible that 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 with respect to trusts where the statute of limitations for representation and warranty claims against the originator has run, may 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 recent ruling by a New York intermediate appellate court 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. That New York intermediate appellate court decision has been appealed to the New York Court of Appeals. The impact on SCC, if any, 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 asserted prior to the expiration of the applicable statute of limitations.

SCC believes it is reasonably possible that future losses related to representation and warranty claims may vary from amounts accrued for these exposures. SCC currently believes the aggregate range of reasonably possible losses in excess of amounts accrued is not material. This estimated range is based on the best information currently available, significant management judgment and a number of factors that are subject to change, including developments in case law and the factors mentioned above. The actual loss that may be incurred could differ materially from our accrual or the estimate of reasonably possible losses.

As described more fully in note 12, losses may also be incurred with respect to various indemnification claims or reserved contribution rights by underwriters, depositors, and securitization trustees in securitization transactions in which SCC participated. Losses from these indemnification claims or reserved contribution rights are frequently not subject to a stated term or limit. We have not concluded that a loss related to any of these indemnification claims or reserved contribution rights is probable, have not accrued a liability for these claims or rights, and are not able to estimate a reasonably possible loss or range of loss for these claims or rights. Accordingly, neither the accrued liability described above totaling \$65.3 million, nor the estimated range of reasonably possible losses in excess of the amount accrued described above, includes any possible losses which may arise from these indemnification claims or reserved contribution rights. There can be no assurances as to the outcome or impact of these indemnification claims or reserved contribution rights. In the event of unfavorable outcomes on these claims or rights, the amount required to discharge or settle them could be substantial and could have a material adverse impact on our business and our consolidated financial position, results of operations and cash flows.

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, 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, 2016, total approximately \$392 million and consist primarily of an intercompany note receivable and a deferred tax asset. 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.

**NOTE 14: SEGMENT INFORMATION**

We operate as a single segment offering tax preparation and related services and products to clients in our offices or through H&R Block tax software, either online or using our desktop software or mobile applications. Revenues of our continuing operations are as follows:



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(in 000s)

|                                                    | Three months ended January 31, |           | Nine months ended January 31, |           |
|----------------------------------------------------|--------------------------------|-----------|-------------------------------|-----------|
|                                                    | 2016                           | 2015      | 2016                          | 2015      |
| <b>REVENUES :</b>                                  |                                |           |                               |           |
| Tax preparation fees:                              |                                |           |                               |           |
| U.S. assisted                                      | \$268,775                      | \$283,692 | \$332,463                     | \$341,107 |
| International                                      | 8,575                          | 10,021    | 79,633                        | 94,308    |
| U.S. digital                                       | 39,251                         | 36,720    | 45,899                        | 42,545    |
|                                                    | 316,601                        | 330,433   | 457,995                       | 477,960   |
| Royalties                                          | 40,387                         | 52,284    | 59,245                        | 68,508    |
| Revenues from Refund Transfers                     | 49,419                         | 50,899    | 54,782                        | 56,472    |
| Revenues from Emerald Card®                        | 13,356                         | 13,910    | 38,853                        | 39,479    |
| Revenues from Peace of Mind® Extended Service Plan | 15,736                         | 13,492    | 62,764                        | 54,308    |
| Interest and fee income on Emerald Advance         | 31,603                         | 30,288    | 32,334                        | 31,439    |
| Other                                              | 7,441                          | 17,768    | 34,703                        | 49,122    |
|                                                    | \$474,543                      | \$509,074 | \$740,676                     | \$777,288 |

**NOTE 15: CONDENSED CONSOLIDATING FINANCIAL STATEMENTS**

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 2015 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, 2016                | H&R Block, Inc. (Guarantor) | Block Financial (Issuer) | Other Subsidiaries | Eliminations | Consolidated H&R Block |             |
| Total revenues                                     | \$ —                        | \$52,500                 | \$423,610          | \$(1,567)    | )                      | \$474,543   |
| Cost of revenues                                   | —                           | 37,557                   | 356,521            | (1,565)      | )                      | 392,513     |
| Selling, general and administrative                | 120                         | 1,097                    | 200,657            | (2)          | )                      | 201,872     |
| Total operating expenses                           | 120                         | 38,654                   | 557,178            | (1,567)      | )                      | 594,385     |
| Other income, net                                  | 1                           | 6,343                    | 3,278              | (6,567)      | )                      | 3,055       |
| Interest expense on external borrowings            | —                           | (23,467)                 | ) (106             | ) —          |                        | (23,573 )   |
| Other expenses, net                                | (78,609)                    | ) (3,212                 | ) 8,482            | 67,199       |                        | (6,140 )    |
| Loss from continuing operations before tax benefit | (78,728)                    | ) (6,490                 | ) (121,914         | ) 60,632     |                        | (146,500 )  |
| Income taxes (benefit)                             | 3,001                       | (25,161                  | ) (45,691          | ) —          |                        | (67,851 )   |
| Net income (loss) from continuing operations       | (81,729)                    | ) 18,671                 | (76,223            | ) 60,632     |                        | (78,649 )   |
| Net loss from discontinued operations              | —                           | (3,078                   | ) (2               | ) —          |                        | (3,080 )    |
| Net income (loss)                                  | (81,729)                    | ) 15,593                 | (76,225            | ) 60,632     |                        | (81,729 )   |
| Other comprehensive loss                           | (4,641)                     | ) —                      | (4,641             | ) 4,641      |                        | (4,641 )    |
| Comprehensive income (loss)                        | \$ (86,370)                 | ) \$ 15,593              | \$(80,866          | ) \$65,273   |                        | \$(86,370 ) |



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| Three months ended January 31,<br>2015                             | H&R Block, Inc.<br>(Guarantor) | Block Financial<br>(Issuer) | Other<br>Subsidiaries | Eliminations | Consolidated<br>H&R Block |
|--------------------------------------------------------------------|--------------------------------|-----------------------------|-----------------------|--------------|---------------------------|
| Total revenues                                                     | \$ —                           | \$ 62,482                   | \$ 448,444            | \$(1,852)    | ) \$ 509,074              |
| Cost of revenues                                                   | —                              | 43,405                      | 353,125               | (1,852)      | ) 394,678                 |
| Selling, general and<br>administrative                             | —                              | 3,401                       | 186,146               | —            | 189,547                   |
| Total operating expenses                                           | —                              | 46,806                      | 539,271               | (1,852)      | ) 584,225                 |
| Other income, net                                                  | 1,068                          | (1,306)                     | ) 953                 | (411)        | ) 304                     |
| Interest expense on external<br>borrowings                         | —                              | (8,952)                     | ) (96)                | ) —          | (9,048)                   |
| Other expenses, net                                                | (32,121)                       | ) 90                        | 5,245                 | 19,816       | (6,970)                   |
| Income (loss) from continuing<br>operations before taxes (benefit) | (31,053)                       | ) 5,508                     | (84,725)              | ) 19,405     | (90,865)                  |
| Income taxes (benefit)                                             | 5,895                          | (9,823)                     | ) (51,626)            | ) —          | (55,554)                  |
| Net income (loss) from<br>continuing operations                    | (36,948)                       | ) 15,331                    | (33,099)              | ) 19,405     | (35,311)                  |
| Net income (loss) from<br>discontinued operations                  | —                              | (2,615)                     | ) 978                 | —            | (1,637)                   |
| Net income (loss)                                                  | (36,948)                       | ) 12,716                    | (32,121)              | ) 19,405     | (36,948)                  |
| Other comprehensive income<br>(loss)                               | (7,840)                        | ) 3,504                     | (7,840)               | ) 4,336      | (7,840)                   |
| Comprehensive income (loss)                                        | \$ (44,788)                    | ) \$ 16,220                 | \$(39,961)            | ) \$ 23,741  | \$(44,788)                |

## CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS

| Nine months ended January 31,<br>2016                 | H&R Block, Inc.<br>(Guarantor) | Block Financial<br>(Issuer) | Other<br>Subsidiaries | Eliminations | (in 000s)<br>Consolidated<br>H&R Block |
|-------------------------------------------------------|--------------------------------|-----------------------------|-----------------------|--------------|----------------------------------------|
| Total revenues                                        | \$ —                           | \$ 91,239                   | \$ 651,125            | \$(1,688)    | ) \$ 740,676                           |
| Cost of revenues                                      | —                              | 59,122                      | 774,985               | (1,685)      | ) 832,422                              |
| Selling, general and<br>administrative                | 3,535                          | 18,847                      | 413,532               | (3)          | ) 435,911                              |
| Total operating expenses                              | 3,535                          | 77,969                      | 1,188,517             | (1,688)      | ) 1,268,333                            |
| Other income, net                                     | 1,731                          | 17,878                      | 4,734                 | (10,350)     | ) 13,993                               |
| Interest expense on external<br>borrowings            | —                              | (45,988)                    | ) (341)               | ) —          | (46,329)                               |
| Other expenses, net                                   | (326,631)                      | ) (3,956)                   | ) (16,939)            | ) 336,191    | (11,335)                               |
| Loss from continuing operations<br>before tax benefit | (328,435)                      | ) (18,796)                  | ) (549,938)           | ) 325,841    | (571,328)                              |
| Income tax benefit                                    | (2,040)                        | ) (25,922)                  | ) (225,694)           | ) —          | (253,656)                              |
| Net income (loss) from<br>continuing operations       | (326,395)                      | ) 7,126                     | (324,244)             | ) 325,841    | (317,672)                              |
| Net loss from discontinued<br>operations              | —                              | (8,721)                     | ) (2)                 | ) —          | (8,723)                                |
| Net loss                                              | (326,395)                      | ) (1,595)                   | ) (324,246)           | ) 325,841    | (326,395)                              |
| Other comprehensive loss                              | (22,589)                       | ) (8,444)                   | ) (22,589)            | ) 31,033     | (22,589)                               |
| Comprehensive loss                                    | \$ (348,984)                   | ) \$ (10,039)               | ) \$(346,835)         | ) \$ 356,874 | \$(348,984)                            |

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| Nine months ended January 31,<br>2015                     | H&R Block, Inc.<br>(Guarantor) | Block Financial<br>(Issuer) | Other<br>Subsidiaries | Eliminations | Consolidated<br>H&R Block |
|-----------------------------------------------------------|--------------------------------|-----------------------------|-----------------------|--------------|---------------------------|
| Total revenues                                            | \$ —                           | \$ 107,233                  | \$ 672,000            | \$(1,945 )   | \$ 777,288                |
| Cost of revenues                                          | —                              | 66,063                      | 749,978               | (1,940 )     | 814,101                   |
| Selling, general and<br>administrative                    | —                              | 12,598                      | 371,533               | (5 )         | 384,126                   |
| Total operating expenses                                  | —                              | 78,661                      | 1,121,511             | (1,945 )     | 1,198,227                 |
| Other income, net                                         | 3,461                          | 2,366                       | 1,373                 | (6,373 )     | 827                       |
| Interest expense on external<br>borrowings                | —                              | (36,388 )                   | (298 )                | —            | (36,686 )                 |
| Other expenses, net                                       | (268,160 )                     | (2,186 )                    | (14,251 )             | 274,141      | (10,456 )                 |
| Loss from continuing operations<br>before taxes (benefit) | (264,699 )                     | (7,636 )                    | (462,687 )            | 267,768      | (467,254 )                |
| Income taxes (benefit)                                    | 479                            | (19,486 )                   | (190,858 )            | —            | (209,865 )                |
| Net income (loss) from<br>continuing operations           | (265,178 )                     | 11,850                      | (271,829 )            | 267,768      | (257,389 )                |
| Net income (loss) from<br>discontinued operations         | —                              | (11,458 )                   | 3,669                 | —            | (7,789 )                  |
| Net income (loss)                                         | (265,178 )                     | 392                         | (268,160 )            | 267,768      | (265,178 )                |
| Other comprehensive income<br>(loss)                      | (6,440 )                       | 7,765                       | (6,440 )              | (1,325 )     | (6,440 )                  |
| Comprehensive income (loss)                               | \$ (271,618 )                  | \$ 8,157                    | \$(274,600 )          | \$ 266,443   | \$(271,618 )              |

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## CONDENSED CONSOLIDATING BALANCE SHEETS

|                                                                         |                                |                             |                       |               | (in 000s)                 |
|-------------------------------------------------------------------------|--------------------------------|-----------------------------|-----------------------|---------------|---------------------------|
| As of January 31, 2016                                                  | H&R Block, Inc.<br>(Guarantor) | Block Financial<br>(Issuer) | Other<br>Subsidiaries | Eliminations  | Consolidated<br>H&R Block |
| Cash & cash equivalents                                                 | \$—                            | \$10,415                    | \$179,096             | \$—           | \$189,511                 |
| Cash & cash equivalents -<br>restricted                                 | —                              | 29,000                      | 40,649                | —             | 69,649                    |
| Receivables, net                                                        | 1                              | 446,367                     | 383,406               | —             | 829,774                   |
| Deferred tax assets and income<br>taxes receivable                      | —                              | —                           | 79,631                | (50,220 )     | 29,411                    |
| Prepaid expenses and other<br>current assets                            | —                              | 10,610                      | 90,559                | —             | 101,169                   |
| Investments in AFS securities                                           | —                              | —                           | 1,145                 | —             | 1,145                     |
| Total current assets                                                    | 1                              | 496,392                     | 774,486               | (50,220 )     | 1,220,659                 |
| Mortgage loans held for<br>investment, net                              | —                              | 212,106                     | —                     | —             | 212,106                   |
| Property and equipment, net                                             | —                              | 160                         | 290,042               | —             | 290,202                   |
| Intangible assets, net                                                  | —                              | —                           | 473,732               | —             | 473,732                   |
| Goodwill                                                                | —                              | —                           | 443,418               | —             | 443,418                   |
| Deferred tax assets and income<br>taxes receivable                      | 3,736                          | 60,588                      | 49,563                | —             | 113,887                   |
| Investments in subsidiaries                                             | 1,024,842                      | —                           | 105,943               | (1,130,785 )  | —                         |
| Amounts due from affiliates                                             | —                              | 2,045,204                   | 1,535,377             | (3,580,581 )  | —                         |
| Other noncurrent assets                                                 | —                              | 86,279                      | 33,763                | —             | 120,042                   |
| Total assets                                                            | \$1,028,579                    | \$2,900,729                 | \$3,706,324           | \$(4,761,586) | \$2,874,046               |
| Accounts payable and accrued<br>expenses                                | 23,583                         | 12,466                      | 169,932               | —             | 205,981                   |
| Accrued salaries, wages and<br>payroll taxes                            | —                              | 1,515                       | 121,774               | —             | 123,289                   |
| Accrued income taxes and<br>reserves for uncertain tax<br>positions     | 4,092                          | 54,227                      | —                     | (50,220 )     | 8,099                     |
| Current portion of long-term debt                                       | —                              | —                           | 817                   | —             | 817                       |
| Deferred revenue and other<br>current liabilities                       | —                              | 98,490                      | 152,356               | —             | 250,846                   |
| Total current liabilities                                               | 27,675                         | 166,698                     | 444,879               | (50,220 )     | 589,032                   |
| Long-term debt                                                          | —                              | 2,620,113                   | 6,820                 | —             | 2,626,933                 |
| Deferred tax liabilities and<br>reserves for uncertain tax<br>positions | 2,261                          | 6,814                       | 79,302                | —             | 88,377                    |
| Deferred revenue and other<br>noncurrent liabilities                    | —                              | 1,161                       | 105,277               | —             | 106,438                   |
| Amounts due to affiliates                                               | 1,535,377                      | —                           | 2,045,204             | (3,580,581 )  | —                         |
| Total liabilities                                                       | 1,565,313                      | 2,794,786                   | 2,681,482             | (3,630,801 )  | 3,410,780                 |
| Stockholders' equity (deficiency)                                       | (536,734 )                     | 105,943                     | 1,024,842             | (1,130,785 )  | (536,734 )                |
| Total liabilities and stockholders'<br>equity                           | \$1,028,579                    | \$2,900,729                 | \$3,706,324           | \$(4,761,586) | \$2,874,046               |



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## CONDENSED CONSOLIDATING BALANCE SHEETS

|                                                                      |                                |                             |                       |               | (in 000s)                 |
|----------------------------------------------------------------------|--------------------------------|-----------------------------|-----------------------|---------------|---------------------------|
| As of January 31, 2015                                               | H&R Block, Inc.<br>(Guarantor) | Block Financial<br>(Issuer) | Other<br>Subsidiaries | Eliminations  | Consolidated<br>H&R Block |
| Cash & cash equivalents                                              | \$ —                           | \$969,387                   | \$352,015             | \$(268 )      | \$1,321,134               |
| Cash & cash equivalents -<br>restricted                              | —                              | 3,459                       | 47,626                | —             | 51,085                    |
| Receivables, net                                                     | —                              | 436,907                     | 340,546               | —             | 777,453                   |
| Deferred tax assets and income<br>taxes receivable                   | —                              | 79,064                      | 163,300               | (74,538 )     | 167,826                   |
| Prepaid expenses and other current<br>assets                         | —                              | 10,426                      | 82,550                | —             | 92,976                    |
| Investments in AFS securities                                        | —                              | 367,745                     | 100                   | —             | 367,845                   |
| Total current assets                                                 | —                              | 1,866,988                   | 986,137               | (74,806 )     | 2,778,319                 |
| Mortgage loans held for<br>investment, net                           | —                              | 245,663                     | —                     | —             | 245,663                   |
| Property and equipment, net                                          | —                              | 136                         | 308,669               | —             | 308,805                   |
| Intangible assets, net                                               | —                              | —                           | 443,329               | —             | 443,329                   |
| Goodwill                                                             | —                              | —                           | 442,961               | —             | 442,961                   |
| Deferred tax assets and income<br>taxes receivable                   | —                              | 27,505                      | (14,064 )             | —             | 13,441                    |
| Investments in subsidiaries                                          | 635,258                        | —                           | 69,988                | (705,246 )    | —                         |
| Amounts due from affiliates                                          | 513,204                        | 459,955                     | 1,029                 | (974,188 )    | —                         |
| Other noncurrent assets                                              | —                              | 104,869                     | 41,554                | —             | 146,423                   |
| Total assets                                                         | \$ 1,148,462                   | \$2,705,116                 | \$2,279,603           | \$(1,754,240) | \$4,378,941               |
| Commercial paper borrowings                                          | \$ —                           | \$591,486                   | \$—                   | \$—           | \$591,486                 |
| Customer banking deposits                                            | —                              | 1,286,484                   | —                     | (268 )        | 1,286,216                 |
| Accounts payable and accrued<br>expenses                             | 1,048                          | 7,216                       | 164,064               | —             | 172,328                   |
| Accrued salaries, wages and<br>payroll taxes                         | —                              | 1,929                       | 116,583               | —             | 118,512                   |
| Accrued income taxes and<br>reserves for uncertain tax positions     | —                              | 53,655                      | 22,502                | (74,538 )     | 1,619                     |
| Current portion of long-term debt                                    | —                              | —                           | 781                   | —             | 781                       |
| Deferred revenue and other<br>current liabilities                    | —                              | 170,981                     | 129,181               | —             | 300,162                   |
| Total current liabilities                                            | 1,048                          | 2,111,751                   | 433,111               | (74,806 )     | 2,471,104                 |
| Long-term debt                                                       | —                              | 497,823                     | 7,637                 | —             | 505,460                   |
| Deferred tax liabilities and<br>reserves for uncertain tax positions | —                              | 23,791                      | 120,245               | —             | 144,036                   |
| Deferred revenue and other<br>noncurrent liabilities                 | —                              | 1,763                       | 110,193               | —             | 111,956                   |
| Amounts due to affiliates                                            | 1,029                          | —                           | 973,159               | (974,188 )    | —                         |
| Total liabilities                                                    | 2,077                          | 2,635,128                   | 1,644,345             | (1,048,994 )  | 3,232,556                 |
| Stockholders' equity                                                 | 1,146,385                      | 69,988                      | 635,258               | (705,246 )    | 1,146,385                 |
| Total liabilities and stockholders'<br>equity                        | \$ 1,148,462                   | \$2,705,116                 | \$2,279,603           | \$(1,754,240) | \$4,378,941               |



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## CONDENSED CONSOLIDATING BALANCE SHEETS

| As of April 30, 2015                                                    | H&R Block, Inc.<br>(Guarantor) | Block Financial<br>(Issuer) | Other<br>Subsidiaries | Eliminations  | (in 000s)<br>Consolidated<br>H&R Block |
|-------------------------------------------------------------------------|--------------------------------|-----------------------------|-----------------------|---------------|----------------------------------------|
| Cash & cash equivalents                                                 | \$—                            | \$478,077                   | \$1,529,553           | \$(440 )      | \$2,007,190                            |
| Cash & cash equivalents -<br>restricted                                 | —                              | 45,098                      | 46,874                | —             | 91,972                                 |
| Receivables, net                                                        | —                              | 80,332                      | 87,632                | —             | 167,964                                |
| Deferred tax assets and income<br>taxes receivable                      | —                              | 77,418                      | 96,849                | —             | 174,267                                |
| Prepaid expenses and other<br>current assets                            | —                              | 7,771                       | 62,512                | —             | 70,283                                 |
| Investments in AFS securities                                           | —                              | 434,924                     | 4,701                 | —             | 439,625                                |
| Total current assets                                                    | —                              | 1,123,620                   | 1,828,121             | (440 )        | 2,951,301                              |
| Mortgage loans held for<br>investment, net                              | —                              | 239,338                     | —                     | —             | 239,338                                |
| Property and equipment, net                                             | —                              | 218                         | 311,169               | —             | 311,387                                |
| Intangible assets, net                                                  | —                              | —                           | 432,142               | —             | 432,142                                |
| Goodwill                                                                | —                              | —                           | 441,831               | —             | 441,831                                |
| Deferred tax assets and income<br>taxes receivable                      | —                              | 44,788                      | —                     | (31,327 )     | 13,461                                 |
| Investments in subsidiaries                                             | 1,371,677                      | —                           | 116,870               | (1,488,547 )  | —                                      |
| Amounts due from affiliates                                             | 463,434                        | 134,094                     | 1,058                 | (598,586 )    | —                                      |
| Other noncurrent assets                                                 | —                              | 81,075                      | 44,885                | —             | 125,960                                |
| Total assets                                                            | \$1,835,111                    | \$1,623,133                 | \$3,176,076           | \$(2,118,900) | \$4,515,420                            |
| Customer banking deposits                                               | \$—                            | \$744,681                   | \$—                   | \$(440 )      | \$744,241                              |
| Accounts payable and accrued<br>expenses                                | 1,104                          | 7,672                       | 222,546               | —             | 231,322                                |
| Accrued salaries, wages and<br>payroll taxes                            | —                              | 1,946                       | 142,798               | —             | 144,744                                |
| Accrued income taxes and<br>reserves for uncertain tax<br>positions     | —                              | 49,529                      | 385,155               | —             | 434,684                                |
| Current portion of long-term debt                                       | —                              | —                           | 790                   | —             | 790                                    |
| Deferred revenue and other<br>current liabilities                       | —                              | 177,063                     | 145,445               | —             | 322,508                                |
| Total current liabilities                                               | 1,104                          | 980,891                     | 896,734               | (440 )        | 1,878,289                              |
| Long-term debt                                                          | —                              | 497,893                     | 7,405                 | —             | 505,298                                |
| Deferred tax liabilities and<br>reserves for uncertain tax<br>positions | —                              | 25,696                      | 148,217               | (31,327 )     | 142,586                                |
| Deferred revenue and other<br>noncurrent liabilities                    | —                              | 1,783                       | 154,515               | —             | 156,298                                |
| Amounts due to affiliates                                               | 1,058                          | —                           | 597,528               | (598,586 )    | —                                      |
| Total liabilities                                                       | 2,162                          | 1,506,263                   | 1,804,399             | (630,353 )    | 2,682,471                              |
| Stockholders' equity                                                    | 1,832,949                      | 116,870                     | 1,371,677             | (1,488,547 )  | 1,832,949                              |
| Total liabilities and stockholders'<br>equity                           | \$1,835,111                    | \$1,623,133                 | \$3,176,076           | \$(2,118,900) | \$4,515,420                            |



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| CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS              |                             |                          |                    |              | (in 000s)              |
|---------------------------------------------------------------|-----------------------------|--------------------------|--------------------|--------------|------------------------|
| Nine months ended January 31, 2016                            | H&R Block, Inc. (Guarantor) | Block Financial (Issuer) | Other Subsidiaries | Eliminations | Consolidated H&R Block |
| Net cash used in operating activities:                        | \$ —                        | \$ (403,132              | ) \$ (1,023,817    | ) \$—        | \$(1,426,949 )         |
| Cash flows from investing:                                    |                             |                          |                    |              |                        |
| Sales, maturities of and payments received on AFS securities  | —                           | 430,460                  | 5,920              | —            | 436,380                |
| Principal payments on mortgage loans held for investment, net | —                           | 24,664                   | —                  | —            | 24,664                 |
| Capital expenditures                                          | —                           | (24                      | ) (66,394          | ) —          | (66,418 )              |
| Payments made for business acquisitions, net of cash acquired | —                           | —                        | (85,329            | ) —          | (85,329 )              |
| Loans made to franchisees                                     | —                           | (20,940                  | ) (437             | ) —          | (21,377 )              |
| Repayments from franchisees                                   | —                           | 22,006                   | 228                | —            | 22,234                 |
| Intercompany payments/investments in subsidiaries             | —                           | (1,871,617               | ) (2,024,025       | ) 3,895,642  | —                      |
| Other, net                                                    | —                           | (5,455                   | ) 9,342            | —            | 3,887                  |
| Net cash provided by (used in) investing activities           | —                           | (1,420,906               | ) (2,160,695       | ) 3,895,642  | 314,041                |
| Cash flows from financing:                                    |                             |                          |                    |              |                        |
| Repayments of long-term debt                                  | —                           | (225,000                 | ) —                | —            | (225,000 )             |
| Proceeds from long-term debt                                  | —                           | 2,346,831                | —                  | —            | 2,346,831              |
| Customer banking deposits, net                                | —                           | (327,145                 | ) —                | 440          | (326,705 )             |
| Transfer of HRB Bank deposits                                 | —                           | (419,028                 | ) —                | —            | (419,028 )             |
| Dividends paid                                                | (157,530                    | ) —                      | —                  | —            | (157,530 )             |
| Repurchase of common stock, including shares surrendered      | (1,888,595                  | ) —                      | —                  | —            | (1,888,595 )           |
| Proceeds from exercise of stock options                       | 25,803                      | —                        | —                  | —            | 25,803                 |
| Intercompany borrowings                                       | 2,024,025                   | —                        | 1,871,617          | (3,895,642   | ) —                    |
| Other, net                                                    | (3,703                      | ) (19,282                | ) (20,987          | ) —          | (43,972 )              |
| Net cash provided by (used in) financing activities           | —                           | 1,356,376                | 1,850,630          | (3,895,202   | ) (688,196 )           |
| Effects of exchange rates on cash                             | —                           | —                        | (16,575            | ) —          | (16,575 )              |
| Net decrease in cash and cash equivalents                     | —                           | (467,662                 | ) (1,350,457       | ) 440        | (1,817,679 )           |
| Cash and cash equivalents at beginning of the period          | —                           | 478,077                  | 1,529,553          | (440         | ) 2,007,190            |
| Cash and cash equivalents at end of the period                | \$ —                        | \$ 10,415                | \$ 179,096         | \$—          | \$ 189,511             |

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| CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS               |                             |                          |                    |              | (in 000s)              |
|----------------------------------------------------------------|-----------------------------|--------------------------|--------------------|--------------|------------------------|
| Nine months ended January 31, 2015                             | H&R Block, Inc. (Guarantor) | Block Financial (Issuer) | Other Subsidiaries | Eliminations | Consolidated H&R Block |
| Net cash used in operating activities:                         | \$ —                        | \$ (290,104              | ) \$(957,096       | ) \$—        | \$(1,247,200 )         |
| Cash flows from investing:                                     |                             |                          |                    |              |                        |
| Sales, maturities of and payments received on AFS securities   | —                           | 68,013                   | —                  | —            | 68,013                 |
| Principal payments on mortgage loans held for investment, net  | —                           | 18,098                   | —                  | —            | 18,098                 |
| Capital expenditures                                           | —                           | (119                     | ) (98,757          | ) —          | (98,876 )              |
| Payments made for business acquisitions, net of cash acquired  | —                           | —                        | (112,163           | ) —          | (112,163 )             |
| Loans made to franchisees                                      | —                           | (47,835                  | ) (178             | ) —          | (48,013 )              |
| Repayments from franchisees                                    | —                           | 33,927                   | 237                | —            | 34,164                 |
| Intercompany payments/investments in subsidiaries              | —                           | (128,713                 | ) (159,234         | ) 287,947    | —                      |
| Other, net                                                     | —                           | (1,925                   | ) 8,004            | —            | 6,079                  |
| Net cash used in investing activities                          | —                           | (58,554                  | ) (362,091         | ) 287,947    | (132,698 )             |
| Cash flows from financing:                                     |                             |                          |                    |              |                        |
| Repayments of commercial paper and other short-term borrowings | —                           | (457,576                 | ) —                | —            | (457,576 )             |
| Proceeds from commercial paper and other short-term borrowings | —                           | 1,049,062                | —                  | —            | 1,049,062              |
| Repayments of long-term debt                                   | —                           | (400,000                 | ) —                | —            | (400,000 )             |
| Customer banking deposits, net                                 | —                           | 514,183                  | —                  | 832          | 515,015                |
| Dividends paid                                                 | (164,905                    | ) —                      | —                  | —            | (164,905 )             |
| Repurchase of common stock, including shares surrendered       | (10,355                     | ) —                      | —                  | —            | (10,355 )              |
| Proceeds from exercise of stock options                        | 16,026                      | —                        | —                  | —            | 16,026                 |
| Intercompany borrowings                                        | 159,234                     | —                        | 128,713            | (287,947     | ) —                    |
| Other, net                                                     | —                           | —                        | (15,993            | ) —          | (15,993 )              |
| Net cash provided by financing activities                      | —                           | 705,669                  | 112,720            | (287,115     | ) 531,274              |
| Effects of exchange rates on cash                              | —                           | —                        | (15,549            | ) —          | (15,549 )              |
| Net increase (decrease) in cash and cash equivalents           | —                           | 357,011                  | (1,222,016         | ) 832        | (864,173 )             |
| Cash and cash equivalents at beginning of the period           | —                           | 612,376                  | 1,574,031          | (1,100       | ) 2,185,307            |
| Cash and cash equivalents at end of the period                 | \$ —                        | \$ 969,387               | \$ 352,015         | \$ (268      | ) \$ 1,321,134         |



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

Our subsidiaries provide tax preparation and other services, and distribute the H&R Block-branded financial products and services of BofI. Tax returns are either prepared by H&R Block tax professionals (in company-owned or franchise offices or virtually via the internet) or prepared and filed by our clients through H&R Block tax software, either online or using our desktop software or mobile applications.

We operate as a single segment that includes all of our continuing operations, which are designed to enable clients to obtain tax preparation services seamlessly in our offices or through our tax software.

**RECENT DEVELOPMENTS**

**DIVESTITURE OF H&R BLOCK BANK** – In April 2014, our subsidiaries, HRB Bank and Block Financial, the sole shareholder of HRB Bank, entered into a definitive Purchase and Assumption Agreement with BofI pursuant to which we agreed to sell certain assets and liabilities, including all of the deposit liabilities of HRB Bank, to BofI (referred to herein as the P&A Transaction). On August 4, 2015, HRB Bank, Block Financial and BofI received regulatory approvals for the P&A Transaction. On August 5, 2015, HRB Bank, Block Financial and BofI entered into an Amended and Restated Purchase and Assumption Agreement. On August 31, 2015, we completed the P&A Transaction and made a net cash payment to BofI of \$419 million, which was approximately equal to the carrying value of the liabilities (including all deposit liabilities) assumed by BofI. In connection with the closing, we liquidated the AFS securities previously held by HRB Bank.

In connection with the closing of the P&A Transaction we and certain of our affiliated entities entered into the Program Management Agreement, dated August 31, 2015 (PMA), the RPA, and the Guaranty Agreement, dated August 31, 2015 (Guaranty Agreement). The PMA, RPA and Guaranty Agreement set forth the terms under which BofI offers H&R Block-branded financial products and services that we distribute to our clients. Under these agreements, one of our affiliated entities also provides certain marketing, servicing and operational support to BofI for such financial products and services, the performance of which is guaranteed by the Company.

A more detailed description of the terms of the PMA, RPA and Guaranty Agreement is set forth under Item 1.01 of the Company's Current Report on Form 8-K filed with the SEC on April 10, 2014 (as supplemented by the description of the revised terms of the PMA set forth under Item 1.01 of the Company's Current Report on Form 8-K filed with the SEC on August 5, 2015). The foregoing descriptions of the PMA, RPA and Guaranty Agreement (including the description incorporated herein by reference) do not purport to be complete and are subject to, and qualified in their entirety by, reference to the PMA, RPA and Guaranty Agreement, which were attached as Exhibits 10.1, 10.2 and 10.3, respectively, to the Company's Current Report on Form 8-K filed with the SEC on September 1, 2015, each of which is incorporated herein by reference.

Upon closing of the P&A Transaction, HRB Bank merged with and into its parent company, Block Financial, surrendered its bank charter and ceased to exist as a bank. As a result, as of August 31, 2015, neither we nor any of our subsidiaries is subject to minimum regulatory capital requirements or to regulation as a bank by the OCC.

In addition, our Holding Companies were SLHCs because they controlled HRB Bank. As a result of the P&A Transaction and related actions, our Holding Companies have ceased to be SLHCs and have deregistered as SLHCs under Section 10(b) of the Home Owner's Loan Act. As of August 31, 2015, our Holding Companies are no longer subject to regulatory capital requirements applicable to SLHCs or to regulation by the Federal Reserve.

**CAPITAL STRUCTURE** – On September 1, 2015, we announced our intent to establish a new capital structure, which included a new \$3.5 billion share repurchase program approved by our Board of Directors, a new committed line of credit, and incremental debt. In September and October, 2015, we (i) as a part of the announced share repurchase program, completed our "modified Dutch auction" tender offer and purchased \$1.5 billion of our common stock at a price of \$37.00 per share; (ii) terminated our previous committed line of credit agreement and entered into a new five-year, \$2.0 billion Credit and Guarantee Agreement; and (iii) issued \$650.0 million of 4.125% Senior Notes due October 1, 2020, and \$350.0 million of 5.250% Senior Notes due October 1, 2025. As disclosed above, proceeds of the 2020 Senior Notes and the 2025 Senior Notes, and cash on hand, were used to repurchase shares, all as discussed below and Item 1, note 3 and note 7 to the consolidated financial statements.



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## RESULTS OF OPERATIONS

A summary of the financial results for our operations is as follows:

Operating Statistics (U.S. only)

| Nine months ended January 31,<br>Tax returns prepared: (in 000s) | 2016   | 2015   | Change | % Change |    |
|------------------------------------------------------------------|--------|--------|--------|----------|----|
| Company-owned operations                                         | 1,413  | 1,532  | (119   | ) (7.8   | )% |
| Franchise operations                                             | 766    | 947    | (181   | ) (19.1  | )% |
| Total assisted                                                   | 2,179  | 2,479  | (300   | ) (12.1  | )% |
| Desktop                                                          | 189    | 180    | 9      | 5.0      | %  |
| Online                                                           | 1,075  | 1,027  | 48     | 4.7      | %  |
| Total Tax Software                                               | 1,264  | 1,207  | 57     | 4.7      | %  |
| Free File Alliance                                               | 127    | 129    | (2     | ) (1.6   | )% |
| Total U.S. returns                                               | 3,570  | 3,815  | (245   | ) (6.4   | )% |
| As of January 31,<br>Tax offices:                                | 2016   | 2015   | Change | % Change |    |
| Company-owned offices                                            | 6,614  | 6,365  | 249    | 3.9      | %  |
| Franchise offices                                                | 3,599  | 3,921  | (322   | ) (8.2   | )% |
| Total U.S. offices                                               | 10,213 | 10,286 | (73    | ) (0.7   | )% |

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| Consolidated – Financial Results                            |           |             | (in 000s)   |          |    |
|-------------------------------------------------------------|-----------|-------------|-------------|----------|----|
| Three months ended January 31,                              | 2016      | 2015        | \$ Change   | % Change |    |
| Tax preparation fees:                                       |           |             |             |          |    |
| U.S. assisted                                               | \$268,775 | \$283,692   | \$(14,917   | ) (5.3   | )% |
| International                                               | 8,575     | 10,021      | (1,446      | ) (14.4  | )% |
| U.S. digital                                                | 39,251    | 36,720      | 2,531       | 6.9      | %  |
|                                                             | 316,601   | 330,433     | (13,832     | ) (4.2   | )% |
| Royalties                                                   | 40,387    | 52,284      | (11,897     | ) (22.8  | )% |
| Revenues from Refund Transfers                              | 49,419    | 50,899      | (1,480      | ) (2.9   | )% |
| Revenues from Emerald Card®                                 | 13,356    | 13,910      | (554        | ) (4.0   | )% |
| Revenues from Peace of Mind® Extended Service Plan          | 15,736    | 13,492      | 2,244       | 16.6     | %  |
| Interest and fee income on Emerald Advance                  | 31,603    | 30,288      | 1,315       | 4.3      | %  |
| Other                                                       | 7,441     | 17,768      | (10,327     | ) (58.1  | )% |
| Total revenues                                              | 474,543   | 509,074     | (34,531     | ) (6.8   | )% |
| Compensation and benefits:                                  |           |             |             |          |    |
| Field wages                                                 | 154,098   | 161,921     | (7,823      | ) (4.8   | )% |
| Other wages                                                 | 48,786    | 45,983      | 2,803       | 6.1      | %  |
| Benefits and other compensation                             | 42,684    | 39,132      | 3,552       | 9.1      | %  |
|                                                             | 245,568   | 247,036     | (1,468      | ) (0.6   | )% |
| Occupancy and equipment                                     | 96,157    | 92,855      | 3,302       | 3.6      | %  |
| Marketing and advertising                                   | 93,708    | 87,569      | 6,139       | 7.0      | %  |
| Depreciation and amortization                               | 45,303    | 43,291      | 2,012       | 4.6      | %  |
| Bad debt                                                    | 35,734    | 39,283      | (3,549      | ) (9.0   | )% |
| Supplies                                                    | 6,219     | 6,981       | (762        | ) (10.9  | )% |
| Other                                                       | 71,696    | 67,210      | 4,486       | 6.7      | %  |
| Total operating expenses                                    | 594,385   | 584,225     | 10,160      | 1.7      | %  |
| Other income                                                | 3,055     | 304         | 2,751       | **       |    |
| Interest expense on borrowings                              | (23,573   | ) (9,048    | ) (14,525   | ) (160.5 | )% |
| Other expenses                                              | (6,140    | ) (6,970    | ) 830       | 11.9     | %  |
| Pretax loss                                                 | (146,500  | ) (90,865   | ) (55,635   | ) (61.2  | )% |
| Income tax benefit                                          | (67,851   | ) (55,554   | ) (12,297   | ) (22.1  | )% |
| Net loss from continuing operations                         | (78,649   | ) (35,311   | ) (43,338   | ) (122.7 | )% |
| Net loss from discontinued operations                       | (3,080    | ) (1,637    | ) (1,443    | ) (88.1  | )% |
| Net loss                                                    | \$(81,729 | ) \$(36,948 | ) (44,781   | ) (121.2 | )% |
| Basic and diluted loss per share:                           |           |             |             |          |    |
| Continuing operations                                       | \$(0.34   | ) \$(0.13   | ) \$(0.21   | ) (161.5 | )% |
| Discontinued operations                                     | (0.01     | ) —         | (0.01       | ) **     |    |
| Consolidated                                                | \$(0.35   | ) \$(0.13   | ) \$(0.22   | ) (169.2 | )% |
| EBITDA from continuing operations <sup>(1)</sup>            |           |             |             |          |    |
|                                                             | \$(77,626 | ) \$(38,302 | ) \$(39,324 | ) (102.7 | )% |
| EBITDA from continuing operations - adjusted <sup>(1)</sup> |           |             |             |          |    |
|                                                             | (77,495   | ) (36,508   | ) \$(40,987 | ) (112.3 | )% |

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

Three months ended January 31, 2016 compared to January 31, 2015

Revenues decreased \$34.5 million, or 6.8%, over the prior year. U.S. assisted tax preparation fees declined \$14.9 million, or 5.3%, and royalties declined \$11.9 million, or 22.8%, due primarily to lower tax return volumes, which were partially offset by improved rate and mix.

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Other revenues declined \$10.3 million, or 58.1%, primarily due to the presentation of income from our mortgage loan portfolio and investments in AFS securities as other income in the current year rather than revenue in the prior year (see Item 1, note 1 to the consolidated financial statements).

Total operating expenses increased \$10.2 million, or 1.7%, from the prior year. Occupancy costs increased \$3.3 million, or 3.6%, and depreciation and amortization expense increased \$2.0 million, or 4.6%, due primarily to acquisitions of franchisee and competitor businesses and improvements to existing offices. Marketing and advertising costs increased \$6.1 million, or 7.0%, due to planned increases in tax season spend, including our new sweepstakes campaign.

Interest expense on borrowings increased \$14.5 million due to the issuance of our Senior Notes and outstanding balances on the 2015 CLOC, as discussed in Item 1, note 7 to the consolidated financial statements.

See Item 1, note 9 to the consolidated financial statements for discussion of the impact of income taxes for the period.

Tax returns prepared in company-owned and franchise offices through February 28, 2016 decreased 7.9% from the prior year. Paid returns prepared using our digital products decreased 3.3% through February 28, 2016 from the prior year. Our business is highly seasonal and results for the quarter ended January 31, as well as results for the period ended February 28, may not be indicative of results for the entire fiscal year.

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| Consolidated – Financial Results                            |             | (in 000s)     |              |           |          |
|-------------------------------------------------------------|-------------|---------------|--------------|-----------|----------|
| Nine months ended January 31,                               |             | 2016          | 2015         | \$ Change | % Change |
| Tax preparation fees:                                       |             |               |              |           |          |
| U.S. assisted                                               | \$332,463   | \$341,107     | \$ (8,644)   | ) (2.5    | )%       |
| International                                               | 79,633      | 94,308        | (14,675)     | ) (15.6   | )%       |
| U.S. digital                                                | 45,899      | 42,545        | 3,354        | 7.9       | %        |
|                                                             | 457,995     | 477,960       | (19,965)     | ) (4.2    | )%       |
| Royalties                                                   | 59,245      | 68,508        | (9,263)      | ) (13.5   | )%       |
| Revenues from Refund Transfers                              | 54,782      | 56,472        | (1,690)      | ) (3.0    | )%       |
| Revenues from Emerald Card®                                 | 38,853      | 39,479        | (626)        | ) (1.6    | )%       |
| Revenues from Peace of Mind® Extended Service Plan          | 62,764      | 54,308        | 8,456        | 15.6      | %        |
| Interest and fee income on Emerald Advance                  | 32,334      | 31,439        | 895          | 2.8       | %        |
| Other                                                       | 34,703      | 49,122        | (14,419)     | ) (29.4   | )%       |
| Total revenues                                              | 740,676     | 777,288       | (36,612)     | ) (4.7    | )%       |
| Compensation and benefits:                                  |             |               |              |           |          |
| Field wages                                                 | 253,561     | 264,822       | (11,261)     | ) (4.3    | )%       |
| Other wages                                                 | 136,782     | 131,544       | 5,238        | 4.0       | %        |
| Benefits and other compensation                             | 89,970      | 87,223        | 2,747        | 3.1       | %        |
|                                                             | 480,313     | 483,589       | (3,276)      | ) (0.7    | )%       |
| Occupancy and equipment                                     | 280,953     | 260,231       | 20,722       | 8.0       | %        |
| Marketing and advertising                                   | 115,204     | 108,227       | 6,977        | 6.4       | %        |
| Depreciation and amortization                               | 127,746     | 115,906       | 11,840       | 10.2      | %        |
| Bad debt                                                    | 38,921      | 44,032        | (5,111)      | ) (11.6   | )%       |
| Supplies                                                    | 13,346      | 17,582        | (4,236)      | ) (24.1   | )%       |
| Other                                                       | 211,850     | 168,660       | 43,190       | 25.6      | %        |
| Total operating expenses                                    | 1,268,333   | 1,198,227     | 70,106       | 5.9       | %        |
| Other income                                                | 13,993      | 827           | 13,166       | **        |          |
| Interest expense on borrowings                              | (46,329)    | ) (36,686)    | ) (9,643)    | ) (26.3   | )%       |
| Other expenses                                              | (11,335)    | ) (10,456)    | ) (879)      | ) (8.4    | )%       |
| Pretax loss                                                 | (571,328)   | ) (467,254)   | ) (104,074)  | ) (22.3   | )%       |
| Income tax benefit                                          | (253,656)   | ) (209,865)   | ) (43,791)   | ) (20.9   | )%       |
| Net loss from continuing operations                         | (317,672)   | ) (257,389)   | ) (60,283)   | ) (23.4   | )%       |
| Net loss from discontinued operations                       | (8,723)     | ) (7,789)     | ) (934)      | ) (12.0   | )%       |
| Net loss                                                    | \$(326,395) | ) \$(265,178) | ) \$(61,217) | ) (23.1   | )%       |
| Basic and diluted loss per share:                           |             |               |              |           |          |
| Continuing operations                                       | \$(1.23)    | ) \$(0.94)    | ) \$(0.29)   | ) (30.9   | )%       |
| Discontinued operations                                     | (0.04)      | ) (0.03)      | ) (0.01)     | ) (33.3   | )%       |
| Consolidated                                                | \$(1.27)    | ) \$(0.97)    | ) \$(0.30)   | ) (30.9   | )%       |
| EBITDA from continuing operations <sup>(1)</sup>            | \$(397,075) | ) \$(314,153) | ) \$(82,922) | ) (26.4   | )%       |
| EBITDA from continuing operations - adjusted <sup>(1)</sup> | (383,601)   | ) (311,845)   | ) \$(71,756) | ) (23.0   | )%       |

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

Nine months ended January 31, 2016 compared to January 31, 2015

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Revenues decreased \$36.6 million, or 4.7%, over the prior year. U.S. assisted tax preparation fees declined \$8.6 million, or 2.5%, and royalties declined \$9.3 million, or 13.5%, due primarily to a decline in tax return volumes. Tax returns prepared in company-owned offices declined 7.8% compared with the prior year, and tax returns prepared in franchise offices declined 19.1%. Declining volumes were partially offset by improved rate and mix.

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Revenues in our international operations were essentially flat in local currency dollars, but changes in foreign currency exchange rates since the prior year resulted in lower U.S. dollar revenues.

Other revenues declined \$14.4 million, or 29.4%, primarily due to the presentation of income from our mortgage loan portfolio and investments in AFS securities as other income in the current year rather than revenue in the prior year (see Item 1, note 1 to the consolidated financial statements).

Total operating expenses increased \$70.1 million, or 5.9%, from the prior year. Occupancy costs increased \$20.7 million, or 8.0%, and depreciation and amortization expense increased \$11.8 million, or 10.2%, due primarily to acquisitions of franchisee and competitor businesses and improvements to existing offices. Bad debt expense declined \$5.1 million, or 11.6%, primarily due to credit risk which is now limited to our 90% participation interest in EAs originated by BofI. Other expenses increased \$43.2 million, or 25.6%, from the prior year, primarily due to higher professional fees related to changes in our capital structure and costs related to the divestiture of HRB Bank. We also incurred additional costs related to consulting expenses, and POM- related claims.

Other income increased \$13.2 million primarily due to realized gains from the sale of AFS securities previously held by HRB Bank and the inclusion of income on our mortgage loan portfolio as discussed above and in Item 1, note 10 to the consolidated financial statements.

Interest expense on borrowings increased \$9.6 million, or 26.3%, due to the issuance of our Senior Notes and outstanding balances on the 2015 CLOC, as discussed in Item 1, note 7 to the consolidated financial statements.

See Item 1, note 9 to the consolidated financial statements for discussion of the impact of income taxes for the period.

### **DISCONTINUED OPERATIONS**

Discontinued operations include our discontinued mortgage operations.

**CONTINGENT LOSSES – SCC** has accrued a liability as of January 31, 2016, for estimated contingent losses arising from representation and warranty claims of \$65.3 million. See Item 1, note 13 to the consolidated financial statements for changes in this accrual. The estimate of accrued loss is based on the best information currently available, significant management judgment, and a number of factors that are subject to change, including developments in case law and other factors. Changes in any one of these factors could significantly impact the estimate.

Losses may also be incurred with respect to various indemnification claims by underwriters, depositors and securitization trustees in securitization transactions in which SCC participated. SCC has not concluded that a loss is probable or reasonably estimable related to these indemnification claims, therefore there is no accrued liability for these contingent losses as of January 31, 2016.

See additional discussion of risks and sensitivity of estimates in Item 1A, "Risk Factors" and Item 7, under "Critical Accounting Estimates" in our Annual Report on Form 10-K.

### **FINANCIAL CONDITION**

These comments should be read in conjunction with the consolidated balance sheets and consolidated statements of cash flows included in Part 1, Item 1.

**CAPITAL RESOURCES AND LIQUIDITY – OVERVIEW** – Our primary sources of capital and liquidity include cash from operations (including changes in working capital) and issuances of debt. We use our sources of liquidity primarily to fund working capital, service and repay debt, pay dividends, repurchase shares of our common stock, and acquire businesses.

Our operations are highly seasonal and substantially all of our revenues and cash flow are generated during the period from January through April. Therefore, we require the use of cash to fund losses from May through December, and typically rely on available cash balances from the prior tax season and short-term borrowings to meet our off-season liquidity needs.

Given the likely availability of liquidity options discussed herein, we believe that, in the absence of any unexpected developments, our existing sources of capital as of January 31, 2016 are sufficient to meet our operating and financing needs.

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DISCUSSION OF CONSOLIDATED STATEMENTS OF CASH FLOWS – The following table summarizes our statements of cash flows for the nine months ended January 31, 2016 and 2015. See Item 1 for the complete statements of cash flows for these periods.

|                                         | (in 000s)    |                  |
|-----------------------------------------|--------------|------------------|
| Nine months ended January 31,           | 2016         | 2015             |
| Net cash provided by (used in):         |              |                  |
| Operating activities                    | \$(1,426,949 | ) \$(1,247,200 ) |
| Investing activities                    | 314,041      | (132,698 )       |
| Financing activities                    | (688,196     | ) 531,274        |
| Effects of exchange rates on cash       | (16,575      | ) (15,549 )      |
| Net change in cash and cash equivalents | \$(1,817,679 | ) \$(864,173 )   |

Operating Activities. Cash used in operations increased, primarily due to higher operating losses, higher receivables resulting from delays in IRS fundings and settlement payments on representation and warranty claims.

Investing Activities. Cash provided by investing activities totaled \$314.0 million for the nine months ended January 31, 2016 compared to a use of \$132.7 million in the prior year period. This change resulted from proceeds of \$388.0 million on the sale of substantially all AFS securities during the year, a decrease of \$26.8 million in payments for business acquisitions, and a decrease of \$32.5 million in capital expenditures.

Financing Activities. Cash used in financing activities totaled \$688.2 million for the nine months ended January 31, 2016 compared to cash provided of \$531.3 million in the prior year period. As described more fully below, changes in cash from financing activities resulted primarily from share repurchase activity and changes in customer deposit balances including the sale of deposits to BofI, partially offset by the issuance of new debt.

**CASH REQUIREMENTS –**

Dividends and Share Repurchases. Returning capital to shareholders in the form of dividends and the repurchase of outstanding shares has historically been a significant component of our capital allocation plan.

We have consistently paid quarterly dividends. Dividends paid totaled \$157.5 million and \$164.9 million for the nine months ended January 31, 2016 and 2015, respectively. Although we have historically paid dividends and 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.

In September 2015, we announced that our Board of Directors approved a new \$3.5 billion share repurchase program, effective through June 2019. As a part of the repurchase program, in the current year, we purchased \$1.9 billion of our common stock at an average price of \$36.02 per share. See Item 1, note 3 to the consolidated financial statements for additional information. Although we may continue to repurchase shares, there is no assurance that we will purchase up to the full board authorization.

Divestiture of HRB Bank. At the time of the closing of the P&A Transaction, we made a one-time cash payment to BofI of \$419 million, which was approximately equal to the carrying value of the liabilities (including all deposit liabilities) assumed by BofI. In connection with the closing, we liquidated the AFS securities previously held by HRB Bank and received proceeds of \$388 million on the sale.

See additional discussion in Item 1, note 2 to the consolidated financial statements, and below under "Regulatory Environment."

Capital Investment. Our business is not capital intensive. Capital expenditures totaled \$66.4 million and \$98.9 million for the nine months ended January 31, 2016 and 2015, respectively. Our capital expenditures relate primarily to recurring improvements to retail offices, as well as investments in computers, software and related assets. We also made payments to acquire franchisee and competitor businesses totaling \$85.3 million and \$112.2 million for the nine months ended January 31, 2016 and 2015, respectively.

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**FINANCING RESOURCES** – On September 25, 2015, we issued \$650.0 million of 4.125% Senior Notes due October 1, 2020, and \$350.0 million of 5.250% Senior Notes due October 1, 2025. Proceeds of these Senior Notes, and cash on hand, were used to repurchase shares, as discussed in Item 1, note 3 to the consolidated financial statements.

Our new 2015 CLOC has capacity up to \$2.0 billion, and is scheduled to expire in September 2020. See Item 1, note 7 to the consolidated financial statements for discussion of the Senior Notes and our 2015 CLOC. We had an outstanding balance of \$1.1 billion under the 2015 CLOC as of January 31, 2016, compared to commercial paper borrowings of \$591.5 million at January 31, 2015. We intend to borrow amounts under the 2015 CLOC from time to time, rather than issuing commercial paper, to support our working capital needs or for other general corporate purposes. Borrowings under the 2015 CLOC are presented as long-term due to their contractual maturity; however, we anticipate paying off the current balance on the CLOC by the end of the fiscal year.

Our 5.125% Senior Notes with a principal amount of \$400 million matured in October 2014 and, utilizing available cash on hand, we repaid them according to their terms.

The following table provides ratings for debt issued by Block Financial as of January 31, 2016 and April 30, 2015:

| As of   | January 31, 2016 |           |         | April 30, 2015 |           |          |
|---------|------------------|-----------|---------|----------------|-----------|----------|
|         | Short-term       | Long-term | Outlook | Short-term     | Long-term | Outlook  |
| Moody's | P-3              | Baa3      | Stable  | P-2            | Baa2      | Stable   |
| S&P     | A-2              | BBB       | Stable  | A-2            | BBB       | Negative |

There have been no other material changes in our borrowings from those reported as of April 30, 2015 in our Annual Report on Form 10-K.

**CASH AND INVESTMENT SECURITIES** – As of January 31, 2016, we held cash and cash equivalents of \$189.5 million, including \$68.3 million held by our foreign subsidiaries.

As discussed above, we liquidated the AFS securities previously held by HRB Bank in connection with the closing of the P&A Transaction on August 31, 2015. We received proceeds of \$388.0 million and recorded gains of \$8.4 million on these sales.

As of January 31, 2016, cash and cash equivalents – restricted consisted primarily of cash held by our captive insurance subsidiary and for the benefit of our discontinued mortgage operations.

**Foreign Operations.** Seasonal borrowing needs of our Canadian operations are typically funded by our U.S. operations. To mitigate foreign currency exchange rate risk, we sometimes enter into foreign exchange forward contracts. There were no forward contracts outstanding as of January 31, 2016.

As of January 31, 2016, our Canadian operations had repaid their U.S. dollar denominated borrowings owed to various U.S. subsidiaries. Non-borrowed funds would have to be repatriated to be available to fund domestic operations, and in certain circumstances this would trigger additional income taxes on those amounts. We do not currently intend to repatriate any non-borrowed funds held by our foreign subsidiaries.

The impact of changes in foreign exchange rates during the period on our international cash balances resulted in a decrease of \$16.6 million during the nine months ended January 31, 2016 compared to \$15.5 million in the prior year.

**CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS** – As discussed above, during the quarter ended October 31, 2015, we issued Senior Notes and during the quarter ended January 31, 2016, we borrowed on the 2015 CLOC. In addition, as discussed above, as a result of the divestiture of HRB Bank, BofI has assumed the deposit liabilities of HRB Bank.

We had an outstanding balance of \$1.1 billion under the 2015 CLOC as of January 31, 2016. We intend to borrow amounts under the 2015 CLOC from time to time in the future, rather than issuing commercial paper, to support our working capital needs or for other general corporate purposes.

In connection with the P&A Transaction we entered into the RPA dated August 31, 2015 with BofI. Pursuant to the RPA, we are required to purchase a 90% participation interest, at par, in all EAs originated by BofI throughout the term of the RPA. At January 31, 2016 the principal balance of purchased participation interests totaled \$374.5 million.

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There have been no other material changes in our contractual obligations and commercial commitments from those reported as of April 30, 2015 in our Annual Report on Form 10-K.

### REGULATORY ENVIRONMENT

**Divestiture of HRB Bank.** As discussed above under "Recent Developments - Divestiture of H&R Bank," on August 31, 2015, we completed the P&A Transaction and related actions, pursuant to which we divested HRB Bank. On the closing date of the P&A Transaction, HRB Bank converted from a federal savings bank to a national banking association. At closing, HRB Bank sold certain assets and liabilities, including all of the deposit liabilities of HRB Bank, to BofI. On the same date, HRB Bank merged with and into its parent company (Block Financial), surrendered its charter and ceased to exist as a bank. As a result of the P&A Transaction and related actions, neither we nor any of our subsidiaries is subject to minimum regulatory capital requirements or to regulation as a bank by the OCC.

**Deregistration as SLHCs.** As discussed above under "Recent Developments - Divestiture of H&R Bank," as a result of the P&A Transaction and related actions on August 31, 2015, our Holding Companies have ceased to be SLHCs and have deregistered as SLHCs under Section 10(b) of the Home Owners Loan Act. As of August 31, 2015, our Holding Companies are not subject to minimum regulatory capital requirements or to regulation by the Federal Reserve.

Additional information about the closing of the P&A Transaction and related actions and the end to regulation of the Company as a bank by the OCC and Federal Reserve is set forth above under "Recent Developments - Divestiture of H&R Bank." Except as set forth above, there have been no other material changes in our regulatory environment from those reported at April 30, 2015 in our Annual Report on Form 10-K, as supplemented by our other periodic filings.

### 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 for 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 losses from settlements and estimated contingent losses from litigation and favorable reserve adjustments. This does not include legal defense costs.

We exclude 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 severance and other restructuring charges in connection with the termination of personnel, closure of offices and related costs.

We exclude the gains and losses on business dispositions, including investment banking, legal and accounting fees from both business dispositions and acquisitions.

We exclude 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 earnings before interest, taxes, depreciation and amortization (EBITDA), adjusted EBITDA and other adjusted financial metrics as identified in the table below. The adjusted financial metrics 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. Additionally, we use EBITDA and pretax income of continuing operations, each subject to permitted adjustments, as performance metrics in incentive compensation calculations for our employees.

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The following is a reconciliation of our reported results from continuing operations to our adjusted results from continuing operations, which are non-GAAP financial measures:

| (in 000s)                                                               |                |               |                |               |
|-------------------------------------------------------------------------|----------------|---------------|----------------|---------------|
| Three months ended January 31,                                          | 2016<br>EBITDA | Loss          | 2015<br>EBITDA | Loss          |
| As reported - from continuing operations                                | \$ (77,626     | ) \$ (78,649  | ) \$ (38,302   | ) \$ (35,311  |
| Adjustments (pretax):                                                   |                |               |                |               |
| Loss contingencies - litigation                                         | 328            | 328           | 337            | 337           |
| Professional fees related to HRB Bank and recapitalization transactions | (96            | ) (96         | ) 6            | 6             |
| Gain on sales of tax offices/businesses                                 | (101           | ) (101        | ) 1,451        | 1,451         |
| Tax effect of adjustments                                               | —              | (129          | ) —            | (683          |
|                                                                         | 131            | 2             | 1,794          | 1,111         |
| As adjusted - from continuing operations                                | \$ (77,495     | ) \$ (78,647  | ) \$ (36,508   | ) \$ (34,200  |
|                                                                         |                | \$ (0.34      | )              | \$ (0.13      |
| (in 000s)                                                               |                |               |                |               |
| Nine months ended January 31,                                           | 2016<br>EBITDA | Loss          | 2015<br>EBITDA | Loss          |
| As reported - from continuing operations                                | \$ (397,075    | ) \$ (317,672 | ) \$ (314,153  | ) \$ (257,389 |
| Adjustments (pretax):                                                   |                |               |                |               |
| Loss contingencies - litigation                                         | 1,017          | 1,017         | 609            | 609           |
| Severance                                                               | —              | —             | 1,051          | 1,051         |
| Professional fees related to HRB Bank and recapitalization transactions | 20,722         | 20,722        | 120            | 120           |
| Gains on AFS securities, net                                            | (8,138         | ) (8,138      | ) (24          | ) (24         |
| Gain on sales of tax offices/businesses                                 | (127           | ) (127        | ) 552          | 552           |
| Tax effect of adjustments                                               | —              | (5,129        | ) —            | (877          |
|                                                                         | 13,474         | 8,345         | 2,308          | 1,431         |
| As adjusted - from continuing operations                                | \$ (383,601    | ) \$ (309,327 | ) \$ (311,845  | ) \$ (255,958 |
|                                                                         |                | \$ (1.20      | )              | \$ (0.94      |

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The following is a reconciliation of EBITDA:

|                                                        |                                |             | (in 000s)                     |              |
|--------------------------------------------------------|--------------------------------|-------------|-------------------------------|--------------|
|                                                        | Three months ended January 31, |             | Nine months ended January 31, |              |
|                                                        | 2016                           | 2015        | 2016                          | 2015         |
| Net loss - as reported                                 | \$(81,729                      | ) \$(36,948 | ) \$(326,395                  | ) \$(265,178 |
| Add back:                                              |                                |             |                               |              |
| Discontinued operations                                | 3,080                          | 1,637       | 8,723                         | 7,789        |
| Income taxes of continuing operations                  | (67,851                        | ) (55,554   | ) (253,656                    | ) (209,865   |
| Interest expense of continuing operations              | 23,571                         | 9,272       | 46,507                        | 37,195       |
| Depreciation and amortization of continuing operations | 45,303                         | 43,291      | 127,746                       | 115,906      |
|                                                        | 4,103                          | (1,354      | ) (70,680                     | ) (48,975    |
| EBITDA from continuing operations                      | \$(77,626                      | ) \$(38,302 | ) \$(397,075                  | ) \$(314,153 |

**FORWARD-LOOKING INFORMATION**

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" or 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, operational 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. There can be no assurances regarding when or if the contemplated transactions described in this report will occur, or the final terms and conditions of the various agreements involved with such transactions.

Details about risks, uncertainties and assumptions that could affect various aspects of our business are included throughout our Annual Report on Form 10-K for the fiscal year ended April 30, 2015 and are also described from time to time in other filings with the SEC. Investors should carefully consider all of these risks, and should pay particular attention to Item 1A, "Risk Factors," and Item 7 under "Critical Accounting Policies" of our Annual Report on Form 10-K for the fiscal year ended April 30, 2015.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

In connection with the closing of the P&A transaction, we liquidated the AFS securities previously held by HRB Bank and received proceeds of \$388.0 million on the sale and transferred deposit liabilities to BofI, as previously discussed in Item 1, note 2 to the consolidated financial statements. In addition, we issued new debt as part of our new capital structure, as discussed in Item 2, under "Capital Structure."

There have been no other material changes in our market risks from those reported at April 30, 2015 in our Annual Report on Form 10-K.



Table of Contents**ITEM 4. CONTROLS AND PROCEDURES**

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

**CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING** – There were no changes during the last fiscal quarter that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II OTHER INFORMATION****ITEM 1. LEGAL PROCEEDINGS**

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

**ITEM 1A. RISK FACTORS**

There have been no material changes in our risk factors from those reported at April 30, 2015 in our Annual Report on Form 10-K.

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

A summary of our purchases of H&R Block common stock during the third quarter of fiscal year 2016 is as follows: (in 000s, except per share amounts)

|                          | Total Number of<br>Shares Purchased<br>(1) | Average<br>Price Paid<br>per Share | Total Number of Shares<br>Purchased as Part of<br>Publicly<br>Announced Plans<br>or Programs (2) | Maximum Dollar Value of<br>Shares that May Yet Be<br>Purchased<br>Under the Plans<br>or Programs (2) |
|--------------------------|--------------------------------------------|------------------------------------|--------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------|
| November 1 - November 30 | 1                                          | \$37.26                            | —                                                                                                | \$2,000,000                                                                                          |
| December 1 - December 31 | 6,728                                      | \$33.09                            | 6,726                                                                                            | \$1,777,508                                                                                          |
| January 1 - January 31   | 5,244                                      | \$32.28                            | 5,243                                                                                            | \$1,608,342                                                                                          |
|                          | 11,973                                     | \$32.72                            | 11,969                                                                                           |                                                                                                      |

(1) We purchased approximately 4 thousand shares in connection with funding employee income tax withholding obligations arising upon the lapse of restrictions on restricted shares and restricted share units.

(2) In September 2015, we announced that our Board of Directors approved a \$3.5 billion share repurchase program, effective through June 2019.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**ITEM 5. OTHER INFORMATION**

None.

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ITEM 6. EXHIBITS

The following exhibits are numbered in accordance with the Exhibit Table of Item 601 of Regulation S-K:

- 12.1 Computation of Ratio of Earnings to Fixed Charges for H&R Block, Inc.
- 12.2 Computation of Ratio of Earnings to Fixed Charges for Block Financial LLC.
- 31.1 Certification by Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification by Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification by Chief Executive Officer pursuant to 18 U.S.C. 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification by Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002.
- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Schema
- 101.CAL XBRL Extension Calculation Linkbase
- 101.LAB XBRL Taxonomy Extension Label Linkbase
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase
- 101.DEF XBRL Taxonomy Extension Definition Linkbase

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SIGNATURES

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

H&R BLOCK, INC.

/s/ William C. Cobb

William C. Cobb

President and Chief Executive Officer

March 11, 2016

/s/ Gregory J. Macfarlane

Gregory J. Macfarlane

Chief Financial Officer

March 11, 2016

/s/ Jeffrey T. Brown

Jeffrey T. Brown

Chief Accounting and Risk Officer

March 11, 2016