

H&R BLOCK INC  
Form 10-Q  
December 07, 2018  
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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 October 31, 2018

OR

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

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

Commission file number 1-06089

H&R Block, Inc.

(Exact name of registrant as specified in its charter)

MISSOURI 44-0607856

(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) 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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes  No

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

"accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

(Check one)

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

Emerging growth company

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

The number of shares outstanding of the registrant's Common Stock, without par value, at the close of business on November 30, 2018: 205,527,815 shares.



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Form 10-Q for the Period Ended October 31, 2018

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## PART I FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF OPERATIONS  
AND COMPREHENSIVE LOSS

|  | Three months ended |                    | (unaudited,<br>in 000s, except<br>per share amounts) |                    |
|--|--------------------|--------------------|--|--------------------|
|  | October 31,        |                    | Six months ended                                     |                    |
|  | 2018               | 2017               | 2018   | 2017               |
| <b>REVENUES:</b>   |                    |                    |  |                    |
| Service revenues   | \$127,267          | \$127,923          | \$254,127  | \$252,618          |
| Royalty, product and other revenues  | 21,604             | 12,931             | 39,927   | 26,038             |
|  | 148,871            | 140,854            | 294,054  | 278,656            |
| <b>OPERATING EXPENSES:</b>   |                    |                    |  |                    |
| Costs of revenues  | 250,815            | 240,019            | 472,375  | 467,734            |
| Selling, general and administrative  | 113,319            | 116,846            | 219,059  | 212,095            |
| Total operating expenses   | 364,134            | 356,865            | 691,434  | 679,829            |
| Other income (expense), net  | 4,464              | 1,011              | 9,006  | 2,231              |
| Interest expense on borrowings   | (21,191 )          | (21,265 )          | (42,381 )  | (42,542 )          |
| Loss from continuing operations before income tax benefit  | (231,990 )         | (236,265 )         | (430,755 )   | (441,484 )         |
| Income tax benefit   | (61,053 )          | (87,953 )          | (111,021 )   | (165,354 )         |
| Net loss from continuing operations  | (170,937 )         | (148,312 )         | (319,734 )   | (276,130 )         |
| Net loss from discontinued operations, net of tax benefits of \$1,607,<br>\$3,067, \$2,769 and \$4,672 | (5,339 )           | (5,254 )           | (9,212 )   | (8,003 )           |
| <b>NET LOSS</b>  | <b>\$(176,276)</b> | <b>\$(153,566)</b> | <b>\$(328,946)</b>                                   | <b>\$(284,133)</b> |
| <b>BASIC AND DILUTED LOSS PER SHARE:</b>   |                    |                    |  |                    |
| Continuing operations  | \$(0.83 )          | \$(0.71 )          | \$(1.55 )  | \$(1.33 )          |
| Discontinued operations  | (0.03 )            | (0.03 )            | (0.04 )  | (0.03 )            |
| Consolidated   | \$(0.86 )          | \$(0.74 )          | \$(1.59 )  | \$(1.36 )          |
| <b>DIVIDENDS DECLARED PER SHARE</b>  | <b>\$0.25</b>      | <b>\$0.24</b>      | <b>\$0.50</b>  | <b>\$0.48</b>      |
| <b>COMPREHENSIVE LOSS:</b>   |                    |                    |  |                    |
| Net loss   | \$(176,276)        | \$(153,566)        | \$(328,946)  | \$(284,133)        |
| Unrealized gains (losses) on securities, net of taxes  | (3 )               | (1 )               | —  | 1                  |
| Change in foreign currency translation adjustments   | (2,843 )           | (1,384 )           | (4,577 )   | 1,076              |
| Other comprehensive income (loss)  | (2,846 )           | (1,385 )           | (4,577 )   | 1,077              |
| Comprehensive loss   | \$(179,122)        | \$(154,951)        | \$(333,523)  | \$(283,056)        |

See accompanying notes to consolidated financial statements.

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| CONSOLIDATED BALANCE SHEETS  | (unaudited, in 000s, except share and per share amounts) |                  |                  |                |
|--|--|------------------|------------------|----------------|
|  | As of  | October 31, 2018 | October 31, 2017 | April 30, 2018 |
| <b>ASSETS</b>  |  |                  |                  |                |
| Cash and cash equivalents  |  | \$ 600,799       | \$ 180,997       | \$ 1,544,944   |
| Cash and cash equivalents - restricted   |  | 122,507          | 100,665          | 118,734        |
| Receivables, less allowance for doubtful accounts of \$65,409, \$55,265 and \$81,813   |  | 61,286           | 77,750           | 146,774        |
| Income taxes receivable  |  | 18,745           | —                | 12,310         |
| Prepaid expenses and other current assets  |  | 87,665           | 85,204           | 68,951         |
| Total current assets   |  | 891,002          | 444,616          | 1,891,713      |
| Property and equipment, at cost, less accumulated depreciation and amortization of \$787,978, \$728,811 and \$745,397                        |  | 241,772          | 262,226          | 231,888        |
| Intangible assets, net   |  | 364,524          | 406,440          | 373,981        |
| Goodwill   |  | 507,191          | 493,059          | 507,871        |
| Deferred tax assets and income taxes receivable  |  | 130,987          | 9,205            | 34,095         |
| Other noncurrent assets  |  | 97,820           | 101,015          | 101,401        |
| Total assets   |  | \$ 2,233,296     | \$ 1,716,561     | \$ 3,140,949   |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |  |                  |                  |                |
| <b>LIABILITIES:</b>  |  |                  |                  |                |
| Accounts payable and accrued expenses  |  | \$ 114,393       | \$ 114,875       | \$ 251,975     |
| Accrued salaries, wages and payroll taxes  |  | 43,396           | 42,897           | 141,499        |
| Accrued income taxes and reserves for uncertain tax positions  |  | 94,257           | 43,879           | 263,050        |
| Current portion of long-term debt  |  | —                | 1,004            | 1,026          |
| Deferred revenue and other current liabilities   |  | 183,675          | 190,522          | 186,101        |
| Total current liabilities  |  | 435,721          | 393,177          | 843,651        |
| Long-term debt   |  | 1,491,328        | 1,493,828        | 1,494,609      |
| Deferred tax liabilities and reserves for uncertain tax positions  |  | 235,799          | 138,024          | 229,430        |
| Deferred revenue and other noncurrent liabilities  |  | 101,773          | 104,305          | 179,548        |
| Total liabilities  |  | 2,264,621        | 2,129,334        | 2,747,238      |
| <b>COMMITMENTS AND CONTINGENCIES</b>   |  |                  |                  |                |
| <b>STOCKHOLDERS' EQUITY:</b>   |  |                  |                  |                |
| Common stock, no par, stated value \$.01 per share, 800,000,000 shares authorized, shares issued of 242,026,278, 246,198,878 and 246,198,878 |  | 2,420            | 2,462            | 2,462          |
| Additional paid-in capital   |  | 759,235          | 753,423          | 760,250        |
| Accumulated other comprehensive loss   |  | (18,880 )        | (14,222 )        | (14,303 )      |
| Retained earnings (deficit)  |  | (64,291 )        | (433,556 )       | 362,980        |
| Less treasury shares, at cost, of 36,499,002, 37,130,454 and 36,944,789  |  | (709,809 )       | (720,880 )       | (717,678 )     |
| Total stockholders' equity (deficiency)  |  | (31,325 )        | (412,773 )       | 393,711        |
| Total liabilities and stockholders' equity   |  | \$ 2,233,296     | \$ 1,716,561     | \$ 3,140,949   |

See accompanying notes to consolidated financial statements.

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| CONSOLIDATED STATEMENTS OF CASH FLOWS                                       |  | (unaudited, in 000s) |             |
|---|--|----------------------|-------------|
| Six months ended October 31,  |  | 2018                 | 2017        |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                |  |                      |             |
| Net loss  |  | \$(328,946)          | \$(284,133) |
| Adjustments to reconcile net loss to net cash used in operating activities: |  |                      |             |
| Depreciation and amortization   |  | 81,925               | 88,390      |
| Provision for bad debt  |  | 2,350                | 4,238       |
| Deferred taxes  |  | 17,913               | 58,634      |
| Stock-based compensation  |  | 11,839               | 11,627      |
| Changes in assets and liabilities, net of acquisitions:                     |  |                      |             |
| Receivables   |  | 75,324               | 77,958      |
| Prepaid expenses and other current assets                                   |  | (18,933 )            | (19,283 )   |
| Other noncurrent assets   |  | 9,147                | 8,984       |
| Accounts payable and accrued expenses                                       |  | (120,921 )           | (85,846 )   |
| Accrued salaries, wages and payroll taxes                                   |  | (97,771 )            | (141,491 )  |
| Deferred revenue and other current liabilities                              |  | (10,408 )            | 3,775       |
| Deferred revenue and other noncurrent liabilities                           |  | (70,606 )            | (60,857 )   |
| Income tax receivables, accrued income taxes and income tax reserves        |  | (179,660 )           | (296,023 )  |
| Other, net  |  | 1,056                | (14,430 )   |
| Net cash used in operating activities                                       |  | (627,691 )           | (648,457 )  |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                |  |                      |             |
| Capital expenditures  |  | (66,422 )            | (56,750 )   |
| Payments made for business acquisitions, net of cash acquired               |  | (24,549 )            | (27,522 )   |
| Franchise loans funded  |  | (8,915 )             | (10,939 )   |
| Payments received on franchise loans  |  | 11,689               | 10,322      |
| Other, net  |  | 4,993                | 5,474       |
| Net cash used in investing activities                                       |  | (83,204 )            | (79,415 )   |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                |  |                      |             |
| Dividends paid  |  | (103,484 )           | (100,082 )  |
| Repurchase of common stock, including shares surrendered                    |  | (102,096 )           | (7,581 )    |
| Proceeds from exercise of stock options                                     |  | 1,746                | 27,522      |
| Other, net  |  | (22,434 )            | (26,717 )   |
| Net cash used in financing activities                                       |  | (226,268 )           | (106,858 )  |
| Effects of exchange rate changes on cash                                    |  | (3,209 )             | (1,147 )    |
| Net decrease in cash, cash equivalents and restricted cash                  |  | (940,372 )           | (835,877 )  |
| Cash, cash equivalents and restricted cash, beginning of period             |  | 1,663,678            | 1,117,539   |
| Cash, cash equivalents and restricted cash, end of period                   |  | \$723,306            | \$281,662   |
| <b>SUPPLEMENTARY CASH FLOW DATA:</b>  |  |                      |             |
| Income taxes paid, net of refunds received                                  |  | \$50,197             | \$76,451    |
| Interest paid on borrowings   |  | 39,902               | 39,902      |
| Accrued additions to property and equipment                                 |  | 4,765                | 3,874       |

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 October 31, 2018 and 2017, the consolidated statements of operations and comprehensive loss for the three and six months ended October 31, 2018 and 2017, and the consolidated statements of cash flows for the six months ended October 31, 2018 and 2017 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 October 31, 2018 and 2017 and for all periods presented have been made.

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

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

**MANAGEMENT ESTIMATES** – The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Significant estimates, assumptions and judgments are applied in the evaluation of contingent losses arising from our discontinued mortgage business, contingent losses associated with pending claims and litigation, reserves for uncertain tax positions, the impact of legislation commonly referred to as the Tax Cuts and Jobs Act (Tax Legislation), 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. See note 7 for additional discussion of the impact of the Tax Legislation.

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

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

**NEW ACCOUNTING PRONOUNCEMENTS** –

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

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



we adopted using the modified retrospective transition method. We recognized a \$101.0 million cumulative effect

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

Leases. In February 2016, the FASB issued Accounting Standards Update No. 2016-02, "Leases" (ASU 2016-02), which will require the recognition of lease assets and lease liabilities by lessees for leases previously classified as operating leases. ASU 2016-02 also requires additional qualitative and quantitative disclosures related to the nature, timing and uncertainty of cash flows arising from leases. This guidance will be effective for us on May 1, 2019, with early adoption permitted. In July 2018, the FASB approved an amendment to the new guidance that allows companies the option of using the effective date of the new standard as the initial application (at the beginning of the period in which is it adopted, rather than at the beginning of the earliest comparative period). We expect to adopt ASU 2016-02 prospectively, and we are currently evaluating the impact of ASU 2016-02 on our consolidated financial statements. However, we expect the impact of this guidance on our consolidated financial statements could be significant, as our future minimum operating lease commitments totaled \$820.9 million as of April 30, 2018. We also expect that adoption of the new standard will require changes to our internal controls over financial reporting.

**NOTE 2: REVENUE RECOGNITION**

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

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

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

|  | (in 000s)          |             |                  |             |
|--|--------------------|-------------|------------------|-------------|
|  | Three months ended |             | Six months ended |             |
|  | October 31,        | October 31, | October 31,      | October 31, |
|  | 2018               | 2017        | 2018             | 2017        |
| Revenues:  |                    |             |                  |             |
| U.S. assisted tax preparation                      | \$41,652           | \$36,665    | \$72,756         | \$66,628    |
| U.S. royalties                                     | 8,062              | 7,008       | 15,633           | 13,975      |
| U.S. DIY tax preparation                           | 2,994              | 4,263       | 5,775            | 7,489       |
| International revenues                             | 45,497             | 47,934      | 84,676           | 88,351      |
| Revenues from Refund Transfers                     | 560                | 1,135       | 1,984            | 3,951       |
| Revenues from Emerald Card®                        | 9,478              | 9,180       | 23,724           | 24,167      |
| Revenues from Peace of Mind® Extended Service Plan | 24,318             | 24,585      | 60,895           | 56,528      |
| Revenues from Tax Identity Shield®                 | 5,243              | 257         | 9,984            | 511         |
| Interest and fee income on Emerald Advance         | 397                | 594         | 844              | 1,258       |
| Other  | 10,670             | 9,233       | 17,783           | 15,798      |
| Total revenues                                     | \$148,871          | \$140,854   | \$294,054        | \$278,656   |

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



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

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

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

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

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

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

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

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

Participation revenue on Emerald Advance lines of credit (EAs) is recorded over the life of the underlying loan.

Changes in the balances of deferred revenue and wages for POM are as follows:

|  | (in 000s)        |           |                |          |
|--|------------------|-----------|----------------|----------|
| POM                                      | Deferred Revenue |           | Deferred Wages |          |
| Six months ended October 31,             | 2018             | 2017      | 2018           | 2017     |
| Balance, beginning of the period         | \$218,274        | \$211,223 | \$32,683       | \$31,344 |
| Amounts deferred                         | 3,459            | 2,913     | 80             | 36       |
| Amounts recognized on previous deferrals | (71,074 )        | (63,332 ) | (10,752 )      | (9,230 ) |
| Balance, end of the period               | \$150,659        | \$150,804 | \$22,011       | \$22,150 |

As of October 31, 2018, deferred revenue related to POM was \$150.7 million. We expect that \$105.7 million will be recognized over the next twelve months, while the remaining balance will be recognized over the following sixty months.

Deferred revenue related to TIS was \$36.4 million and \$20.6 million at April 30, 2018 and 2017, respectively. As of October 31, 2018 and 2017, TIS deferred revenue was \$21.8 million and \$24.4 million, respectively. All deferred revenue related to TIS will be recognized within this fiscal year.

A significant portion of our accounts receivable balances, with the exception of those related to EAs, are subject to the new revenue guidance. The majority of our services and products must be paid for at the time of service, and

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therefore no receivable is recorded unless an RT is purchased. Generally the prices of our services and products are fixed and determinable at the time of sale. For our RT product, we record a receivable for our fees which is then collected at the time the IRS issues the client's refund. Our receivables from contracts with customers are generally collected on a periodic basis during and subsequent to the tax season. See note 4 for our accounts receivable balances.

**NOTE 3: LOSS PER SHARE AND STOCKHOLDERS' EQUITY**

**LOSS PER SHARE** – Basic and diluted loss per share is computed using the two-class method. The two-class method is an earnings allocation formula that determines net income per share for each class of common stock and participating security according to dividends declared and participation rights in undistributed earnings. Per share amounts are computed by dividing net income or loss from continuing operations attributable to common shareholders by the weighted average shares outstanding during each period. The dilutive effect of potential common shares is included in diluted earnings per share except in those periods with a loss from continuing operations. Diluted earnings per share excludes the impact of shares of common stock issuable upon the lapse of certain restrictions or the exercise of options to purchase 3.4 million shares for the three and six months ended October 31, 2018, and 3.4 million shares for the three and six months ended October 31, 2017, as the effect would be antidilutive due to the net loss from continuing operations during those periods.

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

(in 000s, except per share amounts)

|  | Three months ended<br>October 31, |             | Six months ended<br>October 31, |             |
|--|-----------------------------------|-------------|---------------------------------|-------------|
|  | 2018                              | 2017        | 2018                            | 2017        |
| Net loss from continuing operations attributable to shareholders               | \$(170,937)                       | \$(148,312) | \$(319,734)                     | \$(276,130) |
| Amounts allocated to participating securities                                  | (144 )                            | (161 )      | (286 )                          | (321 )      |
| Net loss from continuing operations attributable to common shareholders        | \$(171,081)                       | \$(148,473) | \$(320,020)                     | \$(276,451) |
| Basic weighted average common shares   | 205,520                           | 209,065     | 206,596                         | 208,500     |
| Potential dilutive shares  | —                                 | —           | —                               | —           |
| Dilutive weighted average common shares  | 205,520                           | 209,065     | 206,596                         | 208,500     |
| Loss per share from continuing operations attributable to common shareholders: |                                   |             |                                 |             |
| Basic  | \$(0.83 )                         | \$(0.71 )   | \$(1.55 )                       | \$(1.33 )   |
| Diluted  | (0.83 )                           | (0.71 )     | (1.55 )                         | (1.33 )     |

The weighted average shares outstanding for the three and six months ended October 31, 2018 decreased to 205.5 million and 206.6 million, respectively, from 209.1 million and 208.5 million, respectively, for the three and six months ended October 31, 2017. The decrease is due to share repurchases completed in the current year. During the six months ended October 31, 2018, we purchased and immediately retired 4.2 million shares at an aggregate cost of \$97.1 million (average price of \$23.27 per share). We did not repurchase and retire any shares during the six months ended October 31, 2017. The cost of shares retired during the current period was allocated to the components of stockholders' equity as follows:

(in  
000s)

|                            |          |
|----------------------------|----------|
| Common stock               | \$42     |
| Additional paid-in-capital | 2,503    |
| Retained earnings          | 94,560   |
| Total                      | \$97,105 |

STOCK-BASED COMPENSATION – During the six months ended October 31, 2018, we also acquired 0.2 million shares of our common stock at an aggregate cost of \$5.0 million, which represent shares swapped or surrendered to us in connection with the vesting or exercise of stock-based awards. During the six months ended October 31, 2017, we acquired 0.2 million shares at an aggregate cost of \$7.6 million for similar purposes.

During the six months ended October 31, 2018 and 2017, we issued 0.7 million and 2.1 million shares of common stock, respectively, due to the vesting or exercise of stock-based awards.

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During the six months ended October 31, 2018, we granted equity awards equivalent to 1.0 million shares under our stock-based compensation plans, consisting primarily of nonvested units. Stock-based compensation expense of our continuing operations totaled \$7.5 million and \$11.8 million for the three and six months ended October 31, 2018, respectively, and \$6.8 million and \$11.6 million for the three and six months ended October 31, 2017, respectively. As of October 31, 2018, unrecognized compensation cost for stock options totaled \$0.9 million, and for nonvested shares and units totaled \$37.9 million.

**NOTE 4: RECEIVABLES**

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

(in 000s)

| As of   | October 31, 2018 |           | October 31, 2017 |           | April 30, 2018 |           |
|---|------------------|-----------|------------------|-----------|----------------|-----------|
|   | Short-term       | Long-term | Short-term       | Long-term | Short-term     | Long-term |
| Loans to franchisees  | \$26,964         | \$ 38,489 | \$37,953         | \$ 42,443 | \$30,596       | \$ 35,212 |
| Receivables for U.S assisted and DIY tax preparation and related fees | 6,033            | 5,503     | 3,611            | 6,316     | 41,572         | 5,503     |
| Instant Refund® receivables   | —                | 2,008     | —                | —         | 27,192         | 2,057     |
| H&R Block Emerald Advance® lines of credit                            | 7,418            | 10,988    | 11,095           | 9,209     | 15,642         | 5,754     |
| Software receivables from retailers                                   | 552              | —         | 484              | —         | 6,769          | —         |
| Royalties and other receivables from franchisees                      | 9,103            | 710       | 10,198           | 790       | 9,239          | 761       |
| Other   | 11,216           | 2,831     | 14,409           | 3,791     | 15,764         | 3,147     |
|   | \$61,286         | \$ 60,529 | \$77,750         | \$ 62,549 | \$146,774      | \$ 52,434 |

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

**LOANS TO FRANCHISEES** – Franchisee loan balances consist of term loans made primarily to finance the purchase of franchises and revolving lines of credit primarily for the purpose of funding off-season working capital needs. As of October 31, 2018 and 2017, loans with a principal balance of \$1.1 million and \$2.3 million, respectively, were more than 90 days past due. We had no loans to franchisees on non-accrual status.

**INSTANT REFUND® PROGRAM** – H&R Block Instant Refund® (formerly Instant Cash Back®), amounts are generally received from the Canada Revenue Agency (CRA) within 60 days of filing the client's return, with the remaining balance collectible from the client. As of October 31, 2018 and 2017, we had \$19 thousand and \$39 thousand, respectively, of Instant Refund® balances more than 60 days old due from the CRA.

We review the credit quality of our Instant Refund® receivables based on pools, which are segregated by the year of origination, with older years being deemed more unlikely to be repaid. As of October 31, 2018, gross balances of \$2.6 million and \$1.2 million, were related to tax returns for calendar year 2017 and 2016 and prior, respectively.

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H&R BLOCK EMERALD ADVANCE® LINES OF CREDIT – We review the credit quality of our purchased participation interests in EA receivables based on pools, which are segregated by the year of origination, with older years being deemed more unlikely to be repaid. Beginning in fiscal year 2018, we now charge-off older balances in December while in prior years, these charge-offs happened in April. This change was made to align with our practices on other financial receivables. Balances and amounts on non-accrual status and classified as impaired, or more than 60 days past due, as of October 31, 2018 and 2017, by year of origination, are as follows:

(in 000s)

| As of October 31,        | 2018      |             | 2017                     |           |             |
|--------------------------|-----------|-------------|--------------------------|-----------|-------------|
| Year of origination:     | Balance   | Non-Accrual | Year of origination:     | Balance   | Non-Accrual |
| 2018                     | \$23,457  | \$ 23,457   | 2017                     | \$8,641   | \$ 8,641    |
| 2017 and prior           | 7,749     | 7,749       | 2016 and prior           | 6,717     | 6,717       |
| Revolving loans          | 13,822    | 11,974      | Revolving loans          | 15,069    | 12,579      |
|                          | 45,028    | \$ 43,180   |                          | 30,427    | \$ 27,937   |
| Allowance <sup>(1)</sup> | (26,622 ) |             | Allowance <sup>(1)</sup> | (10,123 ) |             |
| Net balance              | \$18,406  |             | Net balance              | \$20,304  |             |

(1) As of October 31, 2018, the allowance relates to estimated uncollectible balances from the 2018 tax season and past due revolving loans. As of October 31, 2017, the allowance related solely to revolving loans.

ALLOWANCE FOR DOUBTFUL ACCOUNTS – Activity in the allowance for doubtful accounts for our EA and all other short-term and long-term receivables for the six months ended October 31, 2018 and 2017 is as follows:

(in 000s)

|                                 | EAs      | All Other | Total    |
|---------------------------------|----------|-----------|----------|
| Balances as of April 30, 2018   | \$26,622 | \$55,191  | \$81,813 |
| Provision                       | —        | 2,350     | 2,350    |
| Recoveries                      | —        | (3,020 )  | (3,020 ) |
| Charge-offs and other           | —        | (1,176 )  | (1,176 ) |
| Balances as of October 31, 2018 | \$26,622 | \$53,345  | \$79,967 |
| Balances as of April 30, 2017   | \$10,123 | \$46,552  | \$56,675 |
| Provision                       | —        | 4,238     | 4,238    |
| Charge-offs, net of recoveries  | —        | (4,269 )  | (4,269 ) |
| Balances as of October 31, 2017 | \$10,123 | \$46,521  | \$56,644 |



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## NOTE 5: GOODWILL AND INTANGIBLE ASSETS

Changes in the carrying amount of goodwill for the six months ended October 31, 2018 and 2017 are as follows:  
(in 000s)

|   | Goodwill  | Accumulated<br>Impairment<br>Losses | Net       |
|---|-----------|-------------------------------------|-----------|
| Balances as of April 30, 2018               | \$540,168 | \$ (32,297 )                        | \$507,871 |
| Acquisitions                                | 624       | —                                   | 624       |
| Disposals and foreign currency changes, net | (1,304 )  | —                                   | (1,304 )  |
| Impairments                                 | —         | —                                   | —         |
| Balances as of October 31, 2018             | \$539,488 | \$ (32,297 )                        | \$507,191 |
| Balances as of April 30, 2017               | \$523,504 | \$ (32,297 )                        | \$491,207 |
| Acquisitions                                | 961       | —                                   | 961       |
| Disposals and foreign currency changes, net | 891       | —                                   | 891       |
| Impairments                                 | —         | —                                   | —         |
| Balances as of October 31, 2017             | \$525,356 | \$ (32,297 )                        | \$493,059 |

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

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Components of intangible assets are as follows:

(in 000s)

|   | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Net       |
|---|-----------------------------|-----------------------------|-----------|
| As of October 31, 2018:                                 |                             |                             |           |
| Reacquired franchise rights                             | \$339,719                   | \$ (124,733 )               | \$214,986 |
| Customer relationships                                  | 256,739                     | (179,011 )                  | 77,728    |
| Internally-developed software                           | 142,147                     | (117,060 )                  | 25,087    |
| Noncompete agreements                                   | 32,879                      | (30,596 )                   | 2,283     |
| Franchise agreements                                    | 19,201                      | (12,694 )                   | 6,507     |
| Purchased technology                                    | 54,700                      | (40,646 )                   | 14,054    |
| Acquired assets pending final allocation <sup>(1)</sup> | 23,879                      | —                           | 23,879    |
|   | \$869,264                   | \$ (504,740 )               | \$364,524 |
| As of October 31, 2017:                                 |                             |                             |           |
| Reacquired franchise rights                             | \$331,290                   | \$ (101,987 )               | \$229,303 |
| Customer relationships                                  | 234,909                     | (147,881 )                  | 87,028    |
| Internally-developed software                           | 146,985                     | (117,162 )                  | 29,823    |
| Noncompete agreements                                   | 32,471                      | (28,644 )                   | 3,827     |
| Franchise agreements                                    | 19,201                      | (11,414 )                   | 7,787     |
| Purchased technology                                    | 54,700                      | (34,889 )                   | 19,811    |
| Acquired assets pending final allocation <sup>(1)</sup> | 28,861                      | —                           | 28,861    |
|   | \$848,417                   | \$ (441,977 )               | \$406,440 |
| As of April 30, 2018:                                   |                             |                             |           |
| Reacquired franchise rights                             | \$339,779                   | \$ (113,856 )               | \$225,923 |
| Customer relationships                                  | 256,137                     | (164,005 )                  | 92,132    |
| Internally-developed software                           | 140,255                     | (111,734 )                  | 28,521    |
| Noncompete agreements                                   | 32,899                      | (29,673 )                   | 3,226     |
| Franchise agreements                                    | 19,201                      | (12,054 )                   | 7,147     |
| Purchased technology                                    | 54,700                      | (37,770 )                   | 16,930    |
| Acquired assets pending final allocation <sup>(1)</sup> | 102                         | —                           | 102       |
|   | \$843,073                   | \$ (469,092 )               | \$373,981 |

<sup>(1)</sup> Represents business acquisitions for which final purchase price allocations have not yet been determined.

During the six months ended October 31, 2018 and 2017, we made payments to acquire franchisee and competitor businesses totaling \$24.5 million and \$27.5 million, respectively.

Amortization of intangible assets for the three and six months ended October 31, 2018 was \$17.6 million and \$35.7 million, respectively. Amortization for the three and six months ended October 31, 2017 was \$19.4 million and \$38.7 million, respectively. Estimated amortization of intangible assets for fiscal years 2019, 2020, 2021, 2022 and 2023 is \$69.7 million, \$53.4 million, \$38.0 million, \$25.7 million and \$13.4 million, respectively.

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## NOTE 6: LONG-TERM DEBT

The components of long-term debt are as follows:

|   | (in 000s)           |                     |                   |
|---|---------------------|---------------------|-------------------|
| As of                                   | October 31,<br>2018 | October 31,<br>2017 | April 30,<br>2018 |
| Senior Notes, 4.125%, due October 2020  | \$650,000           | \$650,000           | \$650,000         |
| Senior Notes, 5.500%, due November 2022 | 500,000             | 500,000             | 500,000           |
| Senior Notes, 5.250%, due October 2025  | 350,000             | 350,000             | 350,000           |
| Capital lease obligation                | —                   | 6,125               | 5,628             |
| Debt issuance costs and discounts       | (8,672 )            | (11,293 )           | (9,993 )          |
|   | 1,491,328           | 1,494,832           | 1,495,635         |
| Less: Current portion                   | —                   | (1,004 )            | (1,026 )          |
|   | \$1,491,328         | \$1,493,828         | \$1,494,609       |

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

unless extended pursuant to the terms of the 2018 CLOC, at which time all outstanding amounts thereunder will be due and payable. The 2018 CLOC includes an annual facility fee, which will vary depending on our then current credit ratings.

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

We had no outstanding balance under the 2018 CLOC as of October 31, 2018, and amounts available to borrow were limited by the debt-to-EBITDA covenant to approximately \$1.7 billion as of October 31, 2018.

In October 2018, we exercised a purchase option to acquire an office building previously recorded as a capital lease. The estimated fair value of our long-term debt as of October 31, 2018 and 2017 and April 30, 2018 totaled \$1.5 billion, \$1.6 billion and \$1.5 billion, respectively.

## NOTE 7: INCOME TAXES

We file a consolidated federal income tax return in the U.S. with the IRS and file tax returns in various state, local, and foreign jurisdictions. Tax returns are typically examined and either settled upon completion of the examination or through the appeals process. The Company's U.S. federal income tax return for 2016 is currently under examination. Our U.S. federal income tax return for 2015 remains open for examination. Our U.S. federal income tax returns for 2014 and all prior periods are closed. With respect to state and local jurisdictions and countries outside of the U.S., we

are typically subject to examination for three to six years after the income tax returns have been filed. Although

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the outcome of tax audits are always uncertain, we believe that adequate amounts of tax, interest, and penalties have been provided for in the accompanying consolidated financial statements for any adjustments that might be incurred due to federal, state, local or foreign audits.

On December 22, 2017, the U.S. government enacted the Tax Legislation, which made broad and complex changes to the U.S. tax code that impacted our financial statements, the most significant being a reduction in the U.S. federal corporate income tax rate from 35% to 21% and the imposition of a one-time transition tax on certain earnings of foreign subsidiaries. In addition, the Securities and Exchange Commission (SEC) staff issued Staff Accounting Bulletin 118 (SAB 118), which provides guidance on accounting for the tax effects of the Tax Legislation. SAB 118 provides a measurement period that should not extend beyond one year from the Tax Legislation's enactment date for companies to complete their analysis and apply the provisions of the Tax Legislation to their financial statements. To the extent a company's accounting for certain income tax effects of the Tax Legislation is incomplete but the company is able to determine a reasonable estimate, it must record a provisional estimate in the financial statements. If a company cannot determine a provisional estimate to be included in the financial statements, it should continue to apply the provisions of the tax laws that were in effect immediately before the enactment of the Tax Legislation. In the second quarter of fiscal year 2019, we filed our calendar year 2017 U.S. federal income tax return and continued our assessment of the corporate income tax impacts of the Tax Legislation. During the six months ended October 31, 2018, the Company recognized immaterial adjustments to the provisional amounts recorded as of April 30, 2018 and included these adjustments as a component of income tax expense from continuing operations. Our financial statements reflect reasonable provisional estimates of the effects of the Tax Legislation in computing our deferred taxes, the one-time transition tax, the impact of global intangible low taxed income (GILTI), unrecognized tax benefits, and the indirect impacts of the Tax Legislation on state and local taxes.

We are in the process of finalizing our assessment of the impact of the Tax Legislation and our provisional estimates may change as a result of additional analysis of the underlying calculations, or additional regulatory guidance that clarifies the interpretations of the Tax Legislation. As we interpret additional guidance issued by the IRS, U.S. Department of the Treasury, or other standard-setting organizations, and consult with outside advisors, we may adjust these provisional amounts in accordance with SAB 118. The final adjustments will be recorded in the third quarter of fiscal year 2019 and may differ from the estimates provided and could have a material impact on our financial statements. Additionally, due to the complexity of the Tax Legislation as it relates to GILTI, we are continuing to evaluate how the income tax provision will be accounted for under GAAP, which permits companies to make an accounting policy election to either (i) account for GILTI as a component of tax expense in the period in which the company is subject to the rules, or (ii) account for GILTI in the company's measurement of deferred taxes. Currently, we have not elected a method.

Consistent with prior years, our pretax loss for the six months ended October 31, 2018 is expected to be offset by income in the fourth quarter due to the established pattern of seasonality in our primary business operations. As such, management has determined that it is at least more-likely-than-not that realization of tax benefits recorded in our financial statements will occur within our fiscal year. The amount of tax benefit recorded for the six months ended October 31, 2018 reflects management's estimate of the annual effective tax rate applied to the year-to-date loss from continuing operations adjusted for the tax impact of items discrete to the quarter.

Our effective tax rate from continuing operations, including the effects of discrete income tax items, was 25.8% and 37.5% for the six months ended October 31, 2018 and 2017, respectively. The reduced effective tax rate results primarily from the decrease in the U.S. federal corporate income tax rate from 35% to 21%, effective January 1, 2018. We had gross unrecognized tax benefits of \$189.6 million, \$132.9 million and \$186.1 million as of October 31, 2018 and 2017 and April 30, 2018, respectively. The gross unrecognized tax benefits increased \$3.5 million and decreased \$17.0 million during the six months ended October 31, 2018 and 2017, respectively. We believe it is reasonably possible that the balance of unrecognized tax benefits could decrease by approximately \$31.1 million within the next twelve months. The anticipated decrease is due to the expiration of statutes of limitations, and anticipated closure of various tax matters currently under examination, and settlements with tax authorities. For such matters where a change in the balance of unrecognized tax benefits is not reasonably possible, no estimate has been included.

The increase in noncurrent deferred tax assets and income taxes receivable of \$96.9 million from April 30, 2018 is primarily due to the adoption of ASU 2016-16. See note 1 for additional information.

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The following table shows the components of other income (expense), net:  
(in 000s)

|                                      | Three months<br>ended October<br>31,<br>2018 |         | Six months<br>ended October<br>31,<br>2017 |         |
|--------------------------------------|--|---------|--|---------|
| Interest income                      | 4,505  | 1,311   | \$9,002                                    | \$2,755 |
| Foreign currency gains (losses), net | (124 )                                       | (117 )  | (127 )                                     | 14      |
| Other, net                           | 83   | (183 )  | 131  | (538 )  |
|                                      | \$4,464                                      | \$1,011 | \$9,006                                    | \$2,231 |

**NOTE 9: COMMITMENTS AND CONTINGENCIES**

Assisted tax returns are covered by our 100% accuracy guarantee, whereby we will reimburse a client for penalties and interest attributable to an H&R Block error on a return. DIY tax returns are covered by our 100% accuracy guarantee, whereby we will reimburse a client up to a maximum of \$10,000 if our software makes an arithmetic error that results in payment of penalties and/or interest to the IRS that a client would otherwise not have been required to pay. Our liability related to estimated losses under the 100% accuracy guarantee was \$7.1 million, \$3.6 million and \$9.4 million as of October 31, 2018 and 2017 and April 30, 2018, respectively. The short-term and long-term portions of this liability are included in deferred revenue and other liabilities in the consolidated balance sheets.

Our liability related to acquisitions for estimated contingent consideration was \$11.5 million, \$10.1 million and \$12.1 million as of October 31, 2018 and 2017 and April 30, 2018, respectively, with amounts recorded in deferred revenue and other liabilities. Estimates of contingent payments are typically based on expected financial performance of the acquired business and economic conditions at the time of acquisition. Should actual results differ from our assumptions, future payments made will differ from the above estimate and any differences will be recorded in results from continuing operations.

We have contractual commitments to fund certain franchises with approved revolving lines of credit. Our total obligation under these lines of credit was \$32.2 million at October 31, 2018, and net of amounts drawn and outstanding, our remaining commitment to fund totaled \$12.7 million.

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

SCC accrues a liability for losses related to representation and warranty claims when those losses are believed to be both probable and reasonably estimable. SCC's loss estimate is based on the best information currently available, management judgment, developments in relevant case law, and the terms of bulk settlements. In periods when a liability is accrued for such loss contingencies, the liability is included in deferred revenue and other current liabilities on the consolidated balance sheets. SCC had no liability accrued for these losses as of October 31, 2018 or April 30, 2018, compared to \$4.5 million at October 31, 2017.

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

**NOTE 10: LITIGATION AND OTHER RELATED CONTINGENCIES**

We are a defendant in numerous litigation matters, arising both in the ordinary course of business and otherwise, including as described below. The matters described below are not all of the lawsuits to which we are subject. In some of the matters, very large or indeterminate amounts, including punitive damages, are sought. U.S. jurisdictions permit

considerable variation in the assertion of monetary damages or other relief. Jurisdictions may permit claimants not

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to specify the monetary damages sought or may permit claimants to state only that the amount sought is sufficient to invoke the jurisdiction of the court. In addition, jurisdictions may permit plaintiffs to allege monetary damages in amounts well exceeding reasonably possible verdicts in the jurisdiction for similar matters. We believe that the monetary relief which may be specified in a lawsuit or a claim bears little relevance to its merits or disposition value due to this variability in pleadings and our experience in litigating or resolving through settlement of numerous claims over an extended period of time.

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

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

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

For such matters where a loss is believed to be reasonably possible, but not probable, or the loss cannot be reasonably estimated, no accrual has been made. It is possible that such matters could require us to pay damages or make other expenditures or accrue liabilities in amounts that could not be reasonably estimated as of October 31, 2018. While the potential future liabilities could be material in the particular quarterly or annual periods in which they are recorded, based on information currently known, we do not believe any such liabilities are likely to have a material adverse effect on our business and our consolidated financial position, results of operations, and cash flows. As of October 31, 2018 and 2017 and April 30, 2018, our total accrued liabilities were \$3.0 million, \$2.5 million and \$2.7 million, respectively.

Our aggregate range of reasonably possible losses includes (1) matters where a liability has been accrued and there is a reasonably possible loss in excess of the amount accrued for that liability, and (2) matters where a loss is believed to be reasonably possible, but a liability has not been accrued. This aggregate range only represents those losses as to which we are currently able to estimate a reasonably possible loss or range of loss. It does not represent our maximum loss exposure. The estimated range of reasonably possible loss is based upon currently available information and is subject to significant judgment and a variety of assumptions, as well as known and unknown uncertainties. The matters underlying the estimated range will change from time to time, and actual results may vary significantly from the current estimate. As of October 31, 2018, we believe the aggregate range of reasonably possible losses in excess of amounts accrued is not material.

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

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

We believe we have meritorious defenses to the claims asserted in the various matters described in this note, and we intend to defend them vigorously, but there can be no assurances as to their outcomes. In the event of unfavorable

outcomes, it could require modifications to our operations; in addition, the amounts that may be required to be paid

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to discharge or settle the matters could be substantial and could have a material adverse impact on our business and our consolidated financial position, results of operations, and cash flows.

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

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

In response to the statute of limitations rulings in the ACE case and similar rulings in other state and federal courts, parties seeking to pursue representation and warranty claims or lawsuits have sought, and may in the future seek, to distinguish certain aspects of the ACE decision, pursue alternate legal theories of recovery, or assert claims against other contractual parties such as securitization trustees. For example, a 2016 ruling by a New York intermediate appellate court, followed by the federal district court in the second *Homeward* case described below, allowed a counterparty to pursue litigation on additional loans in the same trust even though only some of the loans complied with the condition precedent of timely pre-suit notice and opportunity to cure or repurchase. Additionally, plaintiffs in litigation to which SCC is not party have alleged breaches of an independent contractual duty to provide notice of material breaches of representations and warranties and pursued separate claims to which, they argue, the statute of limitations ruling in the ACE case does not apply. The impact on SCC from alternative legal theories seeking to avoid or distinguish the ACE decision, or judicial limitations on the ACE decision, is unclear. SCC has not accrued liabilities for claims not subject to a tolling arrangement or not relating back to timely filed litigation.

On May 31, 2012, a lawsuit was filed by *Homeward Residential, Inc.* (*Homeward*) in the Supreme Court of the State of New York, County of New York, against SCC styled *Homeward Residential, Inc. v. Sand Canyon Corporation* (Index No. 651885/2012). SCC removed the case to the United States District Court for the Southern District of New York on June 28, 2012 (Case No. 12-cv-5067). The plaintiff, in its capacity as the master servicer for *Option One Mortgage Loan Trust 2006-2* and for the benefit of the trustee and the certificate holders of such trust, asserts claims for breach of contract, anticipatory breach, indemnity, and declaratory judgment in connection with alleged losses incurred as a result of the breach of representations and warranties relating to SCC and to loans sold to the trust. The

plaintiff seeks specific performance of alleged repurchase obligations or damages to compensate the trust and its certificate holders for alleged actual and anticipated losses, as well as a repurchase of all loans due to alleged misrepresentations by SCC as to itself and as to the loans' compliance with its underwriting standards and the value of underlying real estate. In

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response to a motion filed by SCC, the court dismissed the plaintiff's claims for breach of the duty to cure or repurchase, anticipatory breach, indemnity, and declaratory judgment. The case is proceeding on the remaining claims. Representatives of a holder of certificates in the trust filed a motion to intervene to add H&R Block, Inc. to the lawsuit and assert claims against H&R Block, Inc. based on alter ego, corporate veil-piercing, and agency law. On February 12, 2018, the court denied the motion to intervene. We have not concluded that a loss related to this matter is probable, nor have we accrued a liability related to this matter.

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

Underwriters and depositors are, or have been, involved in multiple lawsuits related to securitization transactions in which SCC participated. These lawsuits allege or alleged a variety of claims, including violations of federal and state securities laws and common law fraud, based on alleged materially inaccurate or misleading disclosures. SCC has received notices of claims for indemnification relating to lawsuits to which underwriters or depositors are party. Based on information currently available to SCC, it believes that the 21 lawsuits in which notice of a claim has been made involve 39 securitization transactions with original investments of approximately \$14 billion (of which the outstanding principal amount is approximately \$3.2 billion). Additional lawsuits against the underwriters or depositors may be filed in the future, and SCC may receive additional notices of claims for indemnification or contribution from underwriters or depositors with respect to existing or new lawsuits or settlements of such lawsuits. Certain of the notices received included, and future notices may include, a reservation of rights to assert claims for contribution, which are referred to herein as "contribution claims." Contribution claims may become operative if indemnification is unavailable or insufficient to cover all of the losses and expenses involved. We have not concluded that a loss related to any of these indemnification or contribution claims is probable, nor have we accrued a liability related to any of these claims.

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

If the amount that SCC is ultimately required to pay with respect to claims and litigation related to its past sales and securitizations of mortgage loans, together with payment of SCC's related administration and legal expense, exceeds SCC's net assets, the creditors of SCC, other potential claimants, or a bankruptcy trustee if SCC were to file or be forced into bankruptcy, may attempt to assert claims against us for payment of SCC's obligations. Claimants may

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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 October 31, 2018, total approximately \$296 million and consist of an intercompany note receivable. We believe our legal position is strong on any potential corporate veil-piercing arguments; however, if this position is challenged and not upheld, it could have a material adverse effect on our business and our consolidated financial position, results of operations, and cash flows.

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

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

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

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

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

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

**NOTE 11: CONDENSED CONSOLIDATING FINANCIAL STATEMENTS**

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

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| CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS          |                                |                             |                       |              | (in 000s)                    |
|---|--------------------------------|-----------------------------|-----------------------|--------------|------------------------------|
| Three months ended October 31, 2018                       | H&R Block, Inc.<br>(Guarantor) | Block Financial<br>(Issuer) | Other<br>Subsidiaries | Eliminations | Consolidated<br>H&R<br>Block |
| Total revenues  | \$ —                           | \$ 11,458                   | \$ 142,154            | \$ (4,741)   | \$ 148,871                   |
| Cost of revenues  | —                              | 7,014                       | 245,969               | (2,168)      | 250,815                      |
| Selling, general and administrative                       | 1,476                          | 2,847                       | 111,569               | (2,573)      | 113,319                      |
| Total operating expenses                                  | 1,476                          | 9,861                       | 357,538               | (4,741)      | 364,134                      |
| Other income (expense), net                               | (176,485)                      | 9,018                       | (898)                 | 172,829      | 4,464                        |
| Interest expense on external borrowings                   | —                              | (21,126)                    | (65)                  | —            | (21,191)                     |
| Loss from continuing operations before income tax benefit | (177,961)                      | (10,511)                    | (216,347)             | 172,829      | (231,990)                    |
| Income tax benefit  | (1,685)                        | (2,316)                     | (57,052)              | —            | (61,053)                     |
| Net loss from continuing operations                       | (176,276)                      | (8,195)                     | (159,295)             | 172,829      | (170,937)                    |
| Net loss from discontinued operations                     | —                              | (5,339)                     | —                     | —            | (5,339)                      |
| Net loss  | (176,276)                      | (13,534)                    | (159,295)             | 172,829      | (176,276)                    |
| Other comprehensive loss                                  | (2,846)                        | —                           | (2,846)               | 2,846        | (2,846)                      |
| Comprehensive loss  | \$ (179,122)                   | \$ (13,534)                 | \$ (162,141)          | \$ 175,675   | \$ (179,122)                 |

  

| CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS   |                                |                             |                       |              | (in 000s)                    |
|--|--------------------------------|-----------------------------|-----------------------|--------------|------------------------------|
| Three months ended October 31, 2017                | H&R Block, Inc.<br>(Guarantor) | Block Financial<br>(Issuer) | Other<br>Subsidiaries | Eliminations | Consolidated<br>H&R<br>Block |
| Total revenues                                     | \$ —                           | \$ 11,705                   | \$ 132,060            | \$ (2,911)   | \$ 140,854                   |
| Cost of revenues                                   | —                              | 5,104                       | 234,943               | (28)         | 240,019                      |
| Selling, general and administrative                | —                              | 3,585                       | 116,144               | (2,883)      | 116,846                      |
| Total operating expenses                           | —                              | 8,689                       | 351,087               | (2,911)      | 356,865                      |
| Other income (expense), net                        | (155,999)                      | 6,992                       | (11,221)              | 161,239      | 1,011                        |
| Interest expense on external borrowings            | —                              | (21,178)                    | (87)                  | —            | (21,265)                     |
| Loss from continuing operations before tax benefit | (155,999)                      | (11,170)                    | (230,335)             | 161,239      | (236,265)                    |
| Income tax benefit                                 | (2,433)                        | (990)                       | (84,530)              | —            | (87,953)                     |
| Net loss from continuing operations                | (153,566)                      | (10,180)                    | (145,805)             | 161,239      | (148,312)                    |
| Net loss from discontinued operations              | —                              | (5,253)                     | (1)                   | —            | (5,254)                      |
| Net loss   | (153,566)                      | (15,433)                    | (145,806)             | 161,239      | (153,566)                    |
| Other comprehensive loss                           | (1,385)                        | —                           | (1,385)               | 1,385        | (1,385)                      |
| Comprehensive loss                                 | \$ (154,951)                   | \$ (15,433)                 | \$ (147,191)          | \$ 162,624   | \$ (154,951)                 |



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| CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS          |                                |                             |                       |              | (in 000s)                    |
|---|--------------------------------|-----------------------------|-----------------------|--------------|------------------------------|
| Six months ended October 31, 2018                         | H&R Block, Inc.<br>(Guarantor) | Block Financial<br>(Issuer) | Other<br>Subsidiaries | Eliminations | H&R<br>Block<br>Consolidated |
| Total revenues  | \$ —                           | \$ 28,290                   | \$ 273,631            | \$ (7,867 )  | \$ 294,054                   |
| Cost of revenues  | —                              | 12,047                      | 463,087               | (2,759 )     | 472,375                      |
| Selling, general and administrative                       | 1,476                          | 6,097                       | 216,594               | (5,108 )     | 219,059                      |
| Total operating expenses                                  | 1,476                          | 18,144                      | 679,681               | (7,867 )     | 691,434                      |
| Other income (expense), net                               | (330,101 )                     | 18,845                      | 6,150                 | 314,112      | 9,006                        |
| Interest expense on external borrowings                   | —                              | (42,249 )                   | (132 )                | —            | (42,381 )                    |
| Loss from continuing operations before income tax benefit | (331,577 )                     | (13,258 )                   | (400,032 )            | 314,112      | (430,755 )                   |
| Income tax benefit  | (2,631 )                       | (6,017 )                    | (102,373 )            | —            | (111,021 )                   |
| Net loss from continuing operations                       | (328,946 )                     | (7,241 )                    | (297,659 )            | 314,112      | (319,734 )                   |
| Net loss from discontinued operations                     | —                              | (9,212 )                    | —                     | —            | (9,212 )                     |
| Net loss  | (328,946 )                     | (16,453 )                   | (297,659 )            | 314,112      | (328,946 )                   |
| Other comprehensive loss                                  | (4,577 )                       | —                           | (4,577 )              | 4,577        | (4,577 )                     |
| Comprehensive loss  | \$ (333,523 )                  | \$ (16,453 )                | \$ (302,236 )         | \$ 318,689   | \$ (333,523 )                |

  

| CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS   |                                |                             |                       |              | (in 000s)                    |
|--|--------------------------------|-----------------------------|-----------------------|--------------|------------------------------|
| Six months ended October 31, 2017                  | H&R Block, Inc.<br>(Guarantor) | Block Financial<br>(Issuer) | Other<br>Subsidiaries | Eliminations | H&R<br>Block<br>Consolidated |
| Total revenues                                     | \$ —                           | \$ 29,261                   | \$ 255,154            | \$ (5,759 )  | \$ 278,656                   |
| Cost of revenues                                   | —                              | 12,964                      | 454,913               | (143 )       | 467,734                      |
| Selling, general and administrative                | —                              | 6,791                       | 210,920               | (5,616 )     | 212,095                      |
| Total operating expenses                           | —                              | 19,755                      | 665,833               | (5,759 )     | 679,829                      |
| Other income (expense), net                        | (288,263 )                     | 13,065                      | (13,639 )             | 291,068      | 2,231                        |
| Interest expense on external borrowings            | —                              | (42,382 )                   | (160 )                | —            | (42,542 )                    |
| Loss from continuing operations before tax benefit | (288,263 )                     | (19,811 )                   | (424,478 )            | 291,068      | (441,484 )                   |
| Income tax benefit                                 | (4,130 )                       | (5,613 )                    | (155,611 )            | —            | (165,354 )                   |
| Net loss from continuing operations                | (284,133 )                     | (14,198 )                   | (268,867 )            | 291,068      | (276,130 )                   |
| Net loss from discontinued operations              | —                              | (8,001 )                    | (2 )                  | —            | (8,003 )                     |
| Net loss   | (284,133 )                     | (22,199 )                   | (268,869 )            | 291,068      | (284,133 )                   |
| Other comprehensive income                         | 1,077                          | —                           | 1,077                 | (1,077 )     | 1,077                        |
| Comprehensive loss                                 | \$ (283,056 )                  | \$ (22,199 )                | \$ (267,792 )         | \$ 289,991   | \$ (283,056 )                |

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| CONDENSED CONSOLIDATING BALANCE SHEETS                               |                                |                             |                       |               | (in 000s)                 |
|--|--------------------------------|-----------------------------|-----------------------|---------------|---------------------------|
| As of October 31, 2018   | H&R Block, Inc.<br>(Guarantor) | Block Financial<br>(Issuer) | Other<br>Subsidiaries | Eliminations  | Consolidated<br>H&R Block |
| Cash & cash equivalents  | \$ —                           | \$ 4,417                    | \$ 596,382            | \$ —          | \$ 600,799                |
| Cash & cash equivalents - restricted                                 | —                              | —                           | 122,507               | —             | 122,507                   |
| Receivables, net   | —                              | 39,241                      | 22,045                | —             | 61,286                    |
| Income taxes receivable  | 2,811                          | —                           | 15,934                | —             | 18,745                    |
| Prepaid expenses and other current assets                            | —                              | 3,593                       | 84,072                | —             | 87,665                    |
| Total current assets   | 2,811                          | 47,251                      | 840,940               | —             | 891,002                   |
| Property and equipment, net  | —                              | 524                         | 241,248               | —             | 241,772                   |
| Intangible assets, net   | —                              | —                           | 364,524               | —             | 364,524                   |
| Goodwill   | —                              | —                           | 507,191               | —             | 507,191                   |
| Deferred tax assets and income taxes<br>receivable                   | 434                            | 17,941                      | 112,612               | —             | 130,987                   |
| Investments in subsidiaries  | 2,600,520                      | —                           | 114,862               | (2,715,382 )  | —                         |
| Amounts due from affiliates  | —                              | 1,520,018                   | 2,623,445             | (4,143,463 )  | —                         |
| Other noncurrent assets  | —                              | 58,288                      | 39,532                | —             | 97,820                    |
| Total assets   | \$ 2,603,765                   | \$ 1,644,022                | \$ 4,844,354          | \$(6,858,845) | \$ 2,233,296              |
| Accounts payable and accrued expenses                                | \$ 2,360                       | \$ 9,933                    | \$ 102,100            | \$ —          | \$ 114,393                |
| Accrued salaries, wages and payroll taxes                            | —                              | 1,641                       | 41,755                | —             | 43,396                    |
| Accrued income taxes and reserves for<br>uncertain tax positions     | —                              | 1,060                       | 93,197                | —             | 94,257                    |
| Deferred revenue and other current<br>liabilities                    | —                              | 20,409                      | 163,266               | —             | 183,675                   |
| Total current liabilities  | 2,360                          | 33,043                      | 400,318               | —             | 435,721                   |
| Long-term debt   | —                              | 1,491,328                   | —                     | —             | 1,491,328                 |
| Deferred tax liabilities and reserves for<br>uncertain tax positions | 9,285                          | 3,989                       | 222,525               | —             | 235,799                   |
| Deferred revenue and other noncurrent<br>liabilities                 | —                              | 800                         | 100,973               | —             | 101,773                   |
| Amounts due to affiliates  | 2,623,445                      | —                           | 1,520,018             | (4,143,463 )  | —                         |
| Total liabilities  | 2,635,090                      | 1,529,160                   | 2,243,834             | (4,143,463 )  | 2,264,621                 |
| Stockholders' equity (deficiency)                                    | (31,325 )                      | 114,862                     | 2,600,520             | (2,715,382 )  | (31,325 )                 |
| Total liabilities and stockholders' equity                           | \$ 2,603,765                   | \$ 1,644,022                | \$ 4,844,354          | \$(6,858,845) | \$ 2,233,296              |

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| CONDENSED CONSOLIDATING BALANCE SHEETS                           |                                |                   |                           |                       | (in 000s)    |                           |
|--|--------------------------------|-------------------|---------------------------|-----------------------|--------------|---------------------------|
| As of October 31, 2017   | H&R Block, Inc.<br>(Guarantor) | Block<br>(Issuer) | Financial<br>Subsidiaries | Other<br>Subsidiaries | Eliminations | Consolidated<br>H&R Block |
| Cash & cash equivalents  | \$ —                           | \$ 4,321          | \$ 176,676                | \$ —                  | \$ —         | \$ 180,997                |
| Cash & cash equivalents - restricted                             | —                              | 8,083             | 92,582                    | —                     | —            | 100,665                   |
| Receivables, net   | —                              | 54,006            | 23,744                    | —                     | —            | 77,750                    |
| Prepaid expenses and other current assets                        | —                              | 4,205             | 80,999                    | —                     | —            | 85,204                    |
| Total current assets   | —                              | 70,615            | 374,001                   | —                     | —            | 444,616                   |
| Property and equipment, net                                      | —                              | 56                | 262,170                   | —                     | —            | 262,226                   |
| Intangible assets, net   | —                              | —                 | 406,440                   | —                     | —            | 406,440                   |
| Goodwill   | —                              | —                 | 493,059                   | —                     | —            | 493,059                   |
| Deferred tax assets and income taxes<br>receivable               | 7,463                          | 25,453            | —                         | (23,711               | )            | 9,205                     |
| Investments in subsidiaries                                      | 1,890,500                      | —                 | 91,515                    | (1,982,015            | )            | —                         |
| Amounts due from affiliates                                      | —                              | 1,467,742         | 2,290,036                 | (3,757,778            | )            | —                         |
| Other noncurrent assets  | —                              | 62,046            | 38,969                    | —                     | —            | 101,015                   |
| Total assets   | \$ 1,897,963                   | \$ 1,625,912      | \$ 3,956,190              | \$(5,763,504)         | )            | \$ 1,716,561              |
| Accounts payable and accrued expenses                            | \$ 2,407                       | \$ 9,334          | \$ 103,134                | \$ —                  | \$ —         | \$ 114,875                |
| Accrued salaries, wages and payroll taxes                        | —                              | 1,432             | 41,465                    | —                     | —            | 42,897                    |
| Accrued income taxes and reserves for<br>uncertain tax positions | —                              | —                 | 43,879                    | —                     | —            | 43,879                    |
| Current portion of long-term debt                                | —                              | —                 | 1,004                     | —                     | —            | 1,004                     |
| Deferred revenue and other current<br>liabilities                | —                              | 25,977            | 164,545                   | —                     | —            | 190,522                   |
| Total current liabilities  | 2,407                          | 36,743            | 354,027                   | —                     | —            | 393,177                   |
| Long-term debt   | —                              | 1,488,707         | 5,121                     | —                     | —            | 1,493,828                 |
| Reserves for uncertain tax positions                             | 18,293                         | 8,037             | 135,405                   | (23,711               | )            | 138,024                   |
| Deferred revenue and other noncurrent<br>liabilities             | —                              | 910               | 103,395                   | —                     | —            | 104,305                   |
| Amounts due to affiliates  | 2,290,036                      | —                 | 1,467,742                 | (3,757,778            | )            | —                         |
| Total liabilities  | 2,310,736                      | 1,534,397         | 2,065,690                 | (3,781,489            | )            | 2,129,334                 |
| Stockholders' equity (deficiency)                                | (412,773                       | ) 91,515          | 1,890,500                 | (1,982,015            | )            | (412,773                  |
| Total liabilities and stockholders' equity                       | \$ 1,897,963                   | \$ 1,625,912      | \$ 3,956,190              | \$(5,763,504)         | )            | \$ 1,716,561              |

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| CONDENSED CONSOLIDATING BALANCE SHEETS                               |                                |                             |                       |               | (in 000s)                 |
|--|--------------------------------|-----------------------------|-----------------------|---------------|---------------------------|
| As of April 30, 2018   | H&R Block, Inc.<br>(Guarantor) | Block Financial<br>(Issuer) | Other<br>Subsidiaries | Eliminations  | Consolidated<br>H&R Block |
| Cash & cash equivalents  | \$ —                           | \$ 4,346                    | \$ 1,540,598          | \$—           | \$ 1,544,944              |
| Cash & cash equivalents - restricted                                 | —                              | —                           | 118,734               | —             | 118,734                   |
| Receivables, net   | —                              | 51,562                      | 95,212                | —             | 146,774                   |
| Income taxes receivable  | 2,801                          | —                           | 12,310                | (2,801 )      | 12,310                    |
| Prepaid expenses and other current assets                            | —                              | 1,954                       | 66,997                | —             | 68,951                    |
| Total current assets   | 2,801                          | 57,862                      | 1,833,851             | (2,801 )      | 1,891,713                 |
| Property and equipment, net  | —                              | 467                         | 231,421               | —             | 231,888                   |
| Intangible assets, net   | —                              | —                           | 373,981               | —             | 373,981                   |
| Goodwill   | —                              | —                           | 507,871               | —             | 507,871                   |
| Deferred tax assets and income taxes<br>receivable                   | 1,400                          | 17,798                      | 14,897                | —             | 34,095                    |
| Investments in subsidiaries  | 2,801,808                      | —                           | 131,315               | (2,933,123 )  | —                         |
| Amounts due from affiliates  | —                              | 1,541,954                   | 2,400,938             | (3,942,892 )  | —                         |
| Other noncurrent assets  | —                              | 50,073                      | 51,328                | —             | 101,401                   |
| Total assets   | \$ 2,806,009                   | \$ 1,668,154                | \$ 5,545,602          | \$(6,878,816) | \$ 3,140,949              |
| Accounts payable and accrued expenses                                | \$ 2,074                       | \$ 16,628                   | \$ 233,273            | \$—           | \$ 251,975                |
| Accrued salaries, wages and payroll taxes                            | —                              | 1,161                       | 140,338               | —             | 141,499                   |
| Accrued income taxes and reserves for<br>uncertain tax positions     | —                              | 1,060                       | 264,791               | (2,801 )      | 263,050                   |
| Current portion of long-term debt                                    | —                              | —                           | 1,026                 | —             | 1,026                     |
| Deferred revenue and other current<br>liabilities                    | —                              | 22,172                      | 163,929               | —             | 186,101                   |
| Total current liabilities  | 2,074                          | 41,021                      | 803,357               | (2,801 )      | 843,651                   |
| Long-term debt   | —                              | 1,490,007                   | 4,602                 | —             | 1,494,609                 |
| Deferred tax liabilities and reserves for<br>uncertain tax positions | 9,286                          | 4,963                       | 215,181               | —             | 229,430                   |
| Deferred revenue and other noncurrent<br>liabilities                 | —                              | 848                         | 178,700               | —             | 179,548                   |
| Amounts due to affiliates  | 2,400,938                      | —                           | 1,541,954             | (3,942,892 )  | —                         |
| Total liabilities  | 2,412,298                      | 1,536,839                   | 2,743,794             | (3,945,693 )  | 2,747,238                 |
| Stockholders' equity   | 393,711                        | 131,315                     | 2,801,808             | (2,933,123 )  | 393,711                   |
| Total liabilities and stockholders' equity                           | \$ 2,806,009                   | \$ 1,668,154                | \$ 5,545,602          | \$(6,878,816) | \$ 3,140,949              |

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| CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS                      |                           |                                 |                       |              |              | (in 000s)     |
|---|---------------------------|---------------------------------|-----------------------|--------------|--------------|---------------|
| Six months ended October 31, 2018                                     | H&R Block,<br>(Guarantor) | H&R Block Financial<br>(Issuer) | Other<br>Subsidiaries | Eliminations | H&R<br>Block | Consolidated  |
| Net cash used in operating activities                                 | \$ —                      | \$ (22,827 )                    | \$ (604,864 )         | \$ —         | \$ —         | \$ (627,691 ) |
| Cash flows from investing:  |                           |                                 |                       |              |              |               |
| Capital expenditures  | —                         | (164 )                          | (66,258 )             | —            | —            | (66,422 )     |
| Payments made for business acquisitions, net of cash acquired         | —                         | —                               | (24,549 )             | —            | —            | (24,549 )     |
| Franchise loans funded  | —                         | (8,740 )                        | (175 )                | —            | —            | (8,915 )      |
| Payments received on franchise loans                                  | —                         | 11,442                          | 247                   | —            | —            | 11,689        |
| Intercompany borrowings (payments)                                    | —                         | 20,819                          | (203,834 )            | 183,015      | —            | —             |
| Other, net  | —                         | 209                             | 4,784                 | —            | —            | 4,993         |
| Net cash provided by (used in) investing activities                   | —                         | 23,566                          | (289,785 )            | 183,015      | —            | (83,204 )     |
| Cash flows from financing:  |                           |                                 |                       |              |              |               |
| Dividends paid  | (103,484 )                | —                               | —                     | —            | —            | (103,484 )    |
| Repurchase of common stock, including shares surrendered              | (102,096 )                | —                               | —                     | —            | —            | (102,096 )    |
| Proceeds from exercise of stock options                               | 1,746                     | —                               | —                     | —            | —            | 1,746         |
| Intercompany borrowings (payments)                                    | 203,834                   | —                               | (20,819 )             | (183,015 )   | —            | —             |
| Other, net  | —                         | (668 )                          | (21,766 )             | —            | —            | (22,434 )     |
| Net cash used in financing activities                                 | —                         | (668 )                          | (42,585 )             | (183,015 )   | —            | (226,268 )    |
| Effects of exchange rates on cash                                     | —                         | —                               | (3,209 )              | —            | —            | (3,209 )      |
| Net increase (decrease) in cash, cash equivalents and restricted cash | —                         | 71                              | (940,443 )            | —            | —            | (940,372 )    |
| Cash, cash equivalents and restricted cash, beginning of period       | —                         | 4,346                           | 1,659,332             | —            | —            | 1,663,678     |
| Cash, cash equivalents and restricted cash, end of period             | \$ —                      | \$ 4,417                        | \$ 718,889            | \$ —         | \$ —         | \$ 723,306    |

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| Six months ended October 31, 2017                               | CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS |                                 |                       |             | (in 000s)                    |
|---|--|---------------------------------|-----------------------|-------------|------------------------------|
|   | H&R Block,<br>(Guarantor)                        | H&R Block Financial<br>(Issuer) | Other<br>Subsidiaries | Elimination | H&R<br>Block<br>Consolidated |
| Net cash used in operating activities                           | \$ —   | \$ (17,827 )                    | \$ (630,630 )         | \$ —        | \$ (648,457 )                |
| Cash flows from investing:                                      |  |                                 |                       |             |                              |
| Capital expenditures  | —  | (10 )                           | (56,740 )             | —           | (56,750 )                    |
| Payments made for business acquisitions, net of cash acquired   | —  | —                               | (27,522 )             | —           | (27,522 )                    |
| Franchise loans funded  | —  | (10,885 )                       | (54 )                 | —           | (10,939 )                    |
| Payments received on franchise loans                            | —  | 10,077                          | 245                   | —           | 10,322                       |
| Intercompany borrowings (payments)                              | —  | 20,163                          | (80,141 )             | 59,978      | —                            |
| Other, net  | —  | (998 )                          | 6,472                 | —           | 5,474                        |
| Net cash provided by (used in) investing activities             | —  | 18,347                          | (157,740 )            | 59,978      | (79,415 )                    |
| Cash flows from financing:                                      |  |                                 |                       |             |                              |
| Dividends paid  | (100,082 )                                       | —                               | —                     | —           | (100,082 )                   |
| Repurchase of common stock, including shares surrendered        | (7,581 )   | —                               | —                     | —           | (7,581 )                     |
| Proceeds from exercise of stock options                         | 27,522   | —                               | —                     | —           | 27,522                       |
| Intercompany borrowings (payments)                              | 80,141   | —                               | (20,163 )             | (59,978 )   | —                            |
| Other, net  | —  | (662 )                          | (26,055 )             | —           | (26,717 )                    |
| Net cash used in financing activities                           | —  | (662 )                          | (46,218 )             | (59,978 )   | (106,858 )                   |
| Effects of exchange rates on cash                               | —  | —                               | (1,147 )              | —           | (1,147 )                     |
| Net decrease in cash, cash equivalents and restricted cash      | —  | (142 )                          | (835,735 )            | —           | (835,877 )                   |
| Cash, cash equivalents and restricted cash, beginning of period | —  | 12,546                          | 1,104,993             | —           | 1,117,539                    |
| Cash, cash equivalents and restricted cash, end of period       | \$ —   | \$ 12,404                       | \$ 269,258            | \$ —        | \$ 281,662                   |

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

Our subsidiaries provide assisted and DIY tax preparation solutions through multiple channels (including in-person, online and mobile applications, and desktop software) and distribute H&R Block-branded products and services, including those of our financial partners, to the general public primarily in the U.S., Canada, Australia, and their respective territories. Tax returns are either prepared by H&R Block tax professionals (in company-owned or franchise offices or via an internet review) or prepared and filed by our clients through our DIY tax solutions. 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.

RECENT DEVELOPMENTS

In our Annual Report on Form 10-K for the fiscal year ended April 30, 2018, we disclosed our intent to review our overall pricing structure which was expected to negatively impact revenues in fiscal year 2019. As a result of this review, on October 29, 2018, we announced that, beginning January 2019, we will offer upfront, transparent pricing for all tax preparation methods, and lower prices for millions of our assisted tax preparation clients, which will result in a revenue decline in fiscal year 2019.

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| Consolidated – Financial Results                   |             | (in 000s, except per share amounts) |            |          |
|--|-------------|-------------------------------------|------------|----------|
| Three months ended October 31,                     | 2018        | 2017                                | \$ Change  | % Change |
| Revenues:  |             |                                     |            |          |
| U.S. assisted tax preparation                      | \$41,652    | \$36,665                            | \$4,987    | 13.6 %   |
| U.S. royalties                                     | 8,062       | 7,008                               | 1,054      | 15.0 %   |
| U.S. DIY tax preparation                           | 2,994       | 4,263                               | (1,269 )   | (29.8 )% |
| International revenues                             | 45,497      | 47,934                              | (2,437 )   | (5.1 )%  |
| Revenues from Refund Transfers                     | 560         | 1,135                               | (575 )     | (50.7 )% |
| Revenues from Emerald Card®                        | 9,478       | 9,180                               | 298        | 3.2 %    |
| Revenues from Peace of Mind® Extended Service Plan | 24,318      | 24,585                              | (267 )     | (1.1 )%  |
| Revenues from Tax Identity Shield®                 | 5,243       | 257                                 | 4,986      | **       |
| Interest and fee income on Emerald Advance         | 397         | 594                                 | (197 )     | (33.2 )% |
| Other  | 10,670      | 9,233                               | 1,437      | 15.6 %   |
| Total revenues                                     | 148,871     | 140,854                             | 8,017      | 5.7 %    |
| Compensation and benefits:                         |             |                                     |            |          |
| Field wages  | 59,096      | 57,716                              | 1,380      | 2.4 %    |
| Other wages  | 50,046      | 46,723                              | 3,323      | 7.1 %    |
| Benefits and other compensation                    | 24,178      | 23,583                              | 595        | 2.5 %    |
|  | 133,320     | 128,022                             | 5,298      | 4.1 %    |
| Occupancy <sup>(1)</sup>                           | 104,880     | 94,907                              | 9,973      | 10.5 %   |
| Marketing and advertising                          | 8,586       | 11,562                              | (2,976 )   | (25.7 )% |
| Depreciation and amortization                      | 41,493      | 44,792                              | (3,299 )   | (7.4 )%  |
| Bad debt   | 188         | 1,779                               | (1,591 )   | (89.4 )% |
| Supplies   | 3,189       | 4,368                               | (1,179 )   | (27.0 )% |
| Other <sup>(1)</sup>                               | 72,478      | 71,435                              | 1,043      | 1.5 %    |
| Total operating expenses                           | 364,134     | 356,865                             | 7,269      | 2.0 %    |
| Other income (expense), net                        | 4,464       | 1,011                               | 3,453      | 341.5 %  |
| Interest expense on borrowings                     | (21,191 )   | (21,265 )                           | 74         | 0.3 %    |
| Pretax loss  | (231,990 )  | (236,265 )                          | 4,275      | 1.8 %    |
| Income tax benefit                                 | (61,053 )   | (87,953 )                           | (26,900 )  | (30.6 )% |
| Net loss from continuing operations                | (170,937 )  | (148,312 )                          | (22,625 )  | (15.3 )% |
| Net loss from discontinued operations              | (5,339 )    | (5,254 )                            | (85 )      | (1.6 )%  |
| Net loss   | \$(176,276) | \$(153,566)                         | \$(22,710) | (14.8 )% |
| Basic and diluted loss per share:                  |             |                                     |            |          |
| Continuing operations                              | \$(0.83 )   | \$(0.71 )                           | \$(0.12 )  | (16.9 )% |
| Discontinued operations                            | (0.03 )     | (0.03 )                             | —          | — %      |
| Consolidated                                       | \$(0.86 )   | \$(0.74 )                           | \$(0.12 )  | (16.2 )% |
| EBITDA from continuing operations <sup>(2)</sup>   | \$(169,306) | \$(170,208)                         | \$902      | 0.5 %    |

(1) We reclassified \$10.5 million of software and information technology (IT) maintenance expense from occupancy to other expenses for the three months ended October 31, 2017 to conform to the current period presentation.

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

Three months ended October 31, 2018 compared to October 31, 2017



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Revenues increased \$8.0 million, or 5.7%, from the prior year period. U.S. assisted tax preparation fees increased \$5.0 million, or 13.6%, primarily due to higher off-season tax return volume and higher net average charge.

International revenues decreased \$2.4 million, or 5.1%, primarily due to unfavorable exchange rates in our Australian operations.

Revenues from TIS increased \$5.0 million due to a new product feature that impacted revenue recognition timing.

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Total operating expenses increased \$7.3 million, or 2.0%, from the prior year. Other wages increased \$3.3 million, or 7.1%, due to higher information technology wages. Occupancy costs increased \$10.0 million, or 10.5%, primarily due to lease buyout payments on previously-announced office closures related to consolidation of field offices and higher rental rates. Marketing and advertising decreased \$3.0 million, or 25.7%, due to the timing of these expenses.

Depreciation and amortization decreased \$3.3 million, or 7.4%, primarily due to lower depreciation on equipment and amortization of internally developed software.

Other expenses increased \$1.0 million, or 1.5%. The components of other expenses are as follows:

| Three months ended October 31,       | 2018     | 2017     | \$        | %       |
|--------------------------------------|----------|----------|-----------|---------|
|                                      |          |          | Change    | Change  |
| Consulting and outsourced services   | \$17,817 | \$19,587 | \$(1,770) | (9.0)%  |
| Bank partner fees                    | 1,368    | 1,363    | 5         | 0.4%    |
| Client claims and refunds            | 10,098   | 11,200   | (1,102)   | (9.8)%  |
| Employee travel and related expenses | 13,377   | 10,358   | 3,019     | 29.1%   |
| Software and IT maintenance expenses | 18,911   | 10,498   | 8,413     | 80.1%   |
| Credit card/bank charges             | 2,743    | 2,640    | 103       | 3.9%    |
| Insurance                            | 2,910    | 3,824    | (914)     | (23.9)% |
| Legal fees and settlements           | 916      | 5,750    | (4,834)   | (84.1)% |
| Other                                | 4,338    | 6,215    | (1,877)   | (30.2)% |
|                                      | \$72,478 | \$71,435 | \$1,043   | 1.5%    |

The increase in software and IT maintenance expenses of \$8.4 million, or 80.1%, is due to increased investments in information technology. Legal fees and settlements decreased \$4.8 million, or 84.1%, due to fewer legal matters in the current year. Employee travel and related expenses increased \$3.0 million, or 29.1% primarily due to the timing of our franchise convention in the current year compared to the prior year.

The income tax benefit decreased \$26.9 million from the prior year period to \$61.1 million primarily due to the impacts of the Tax Legislation. See Item 1, note 7 to the consolidated financial statements for additional discussion.

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| Consolidated – Financial Results                   |             | (in 000s, except per share amounts) |            |          |    |
|--|-------------|-------------------------------------|------------|----------|----|
| Six months ended October 31,                       | 2018        | 2017                                | \$ Change  | % Change |    |
| Revenues:  |             |                                     |            |          |    |
| U.S. assisted tax preparation                      | \$72,756    | \$66,628                            | \$6,128    | 9.2      | %  |
| U.S. royalties                                     | 15,633      | 13,975                              | 1,658      | 11.9     | %  |
| U.S. DIY tax preparation                           | 5,775       | 7,489                               | (1,714)    | (22.9)   | )% |
| International revenues                             | 84,676      | 88,351                              | (3,675)    | (4.2)    | )% |
| Revenues from Refund Transfers                     | 1,984       | 3,951                               | (1,967)    | (49.8)   | )% |
| Revenues from Emerald Card®                        | 23,724      | 24,167                              | (443)      | (1.8)    | )% |
| Revenues from Peace of Mind® Extended Service Plan | 60,895      | 56,528                              | 4,367      | 7.7      | %  |
| Revenues from Tax Identity Shield®                 | 9,984       | 511                                 | 9,473      | **       |    |
| Interest and fee income on Emerald Advance         | 844         | 1,258                               | (414)      | (32.9)   | )% |
| Other  | 17,783      | 15,798                              | 1,985      | 12.6     | %  |
| Total revenues                                     | 294,054     | 278,656                             | 15,398     | 5.5      | %  |
| Compensation and benefits:                         |             |                                     |            |          |    |
| Field wages  | 109,028     | 105,839                             | 3,189      | 3.0      | %  |
| Other wages  | 97,868      | 89,920                              | 7,948      | 8.8      | %  |
| Benefits and other compensation                    | 47,109      | 44,228                              | 2,881      | 6.5      | %  |
|  | 254,005     | 239,987                             | 14,018     | 5.8      | %  |
| Occupancy <sup>(1)</sup>                           | 195,606     | 185,198                             | 10,408     | 5.6      | %  |
| Marketing and advertising                          | 15,480      | 18,666                              | (3,186)    | (17.1)   | )% |
| Depreciation and amortization                      | 81,925      | 88,390                              | (6,465)    | (7.3)    | )% |
| Bad debt   | (670)       | 4,238                               | (4,908)    | **       |    |
| Supplies   | 5,393       | 7,102                               | (1,709)    | (24.1)   | )% |
| Other <sup>(1)</sup>                               | 139,695     | 136,248                             | 3,447      | 2.5      | %  |
| Total operating expenses                           | 691,434     | 679,829                             | 11,605     | 1.7      | %  |
| Other income (expense), net                        | 9,006       | 2,231                               | 6,775      | 303.7    | %  |
| Interest expense on borrowings                     | (42,381)    | (42,542)                            | 161        | 0.4      | %  |
| Pretax loss  | (430,755)   | (441,484)                           | 10,729     | 2.4      | %  |
| Income tax benefit                                 | (111,021)   | (165,354)                           | (54,333)   | (32.9)   | )% |
| Net loss from continuing operations                | (319,734)   | (276,130)                           | (43,604)   | (15.8)   | )% |
| Net loss from discontinued operations              | (9,212)     | (8,003)                             | (1,209)    | (15.1)   | )% |
| Net loss   | \$(328,946) | \$(284,133)                         | \$(44,813) | (15.8)   | )% |
| Basic and diluted loss per share:                  |             |                                     |            |          |    |
| Continuing operations                              | \$(1.55)    | \$(1.33)                            | \$(0.22)   | (16.5)   | )% |
| Discontinued operations                            | (0.04)      | (0.03)                              | (0.01)     | (33.3)   | )% |
| Consolidated                                       | \$(1.59)    | \$(1.36)                            | \$(0.23)   | (16.9)   | )% |
| EBITDA from continuing operations <sup>(2)</sup>   | \$(306,449) | \$(310,552)                         | \$4,103    | 1.3      | %  |

(1) We reclassified \$18.4 million of software and information technology (IT) maintenance expense from occupancy to other expenses for the six months ended October 31, 2017 to conform to the current period presentation.

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

Six months ended October 31, 2018 compared to October 31, 2017

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Revenues increased \$15.4 million, or 5.5%, from the prior year period. U.S. assisted tax preparation fees increased \$6.1 million, or 9.2%, primarily due to higher off-season tax return volume and higher net average charge. International revenues decreased \$3.7 million, or 4.2%, primarily due to unfavorable exchange rates in our Australian operations and the extended tax season during the prior year in our Canadian operations. Revenues from POM increased \$4.4 million, or 7.7%, due to changes in the claims pattern used to recognize revenue.

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Revenues from TIS increased \$9.5 million due to a new product feature that impacted revenue recognition timing. Total operating expenses increased \$11.6 million, or 1.7%, from the prior year period. Other wages increased \$7.9 million, or 8.8%, due to higher information technology wages. Occupancy costs increased \$10.4 million, or 5.6%, primarily due to lease buyout payments on previously-announced office closures related to consolidation of field offices and higher rental rates. Depreciation and amortization decreased \$6.5 million, or 7.3%, primarily due to lower depreciation on equipment and amortization of internally developed software. Bad debt expenses decreased \$4.9 million primarily due to recoveries related to better than expected collections on receivables related to RTs. Other expenses increased \$3.4 million, or 2.5%. The components of other expenses are as follows:

| Six months ended October 31,         | 2018      | 2017      | \$       | %       |
|--------------------------------------|-----------|-----------|----------|---------|
|                                      |           |           | Change   | Change  |
| Consulting and outsourced services   | \$38,632  | \$38,092  | \$540    | 1.4 %   |
| Bank partner fees                    | 2,833     | 2,996     | (163 )   | (5.4 )% |
| Client claims and refunds            | 22,720    | 26,365    | (3,645 ) | (13.8)% |
| Employee travel and related expenses | 20,206    | 16,435    | 3,771    | 22.9 %  |
| Software and IT maintenance expenses | 30,677    | 18,406    | 12,271   | 66.7 %  |
| Credit card/bank charges             | 5,146     | 7,222     | (2,076 ) | (28.7)% |
| Insurance                            | 6,299     | 7,113     | (814 )   | (11.4)% |
| Legal fees and settlements           | 3,489     | 7,897     | (4,408 ) | (55.8)% |
| Other                                | 9,693     | 11,722    | (2,029 ) | (17.3)% |
|                                      | \$139,695 | \$136,248 | \$3,447  | 2.5 %   |

The increase in software and IT maintenance expenses of \$12.3 million, or 66.7%, is due to increased investments in information technology. Legal fees and settlements decreased \$4.4 million, or 55.8%, due to fewer legal matters in the current year.

The income tax benefit decreased \$54.3 million from the prior year period to \$111.0 million primarily due to the impacts of the Tax Legislation. See Item 1, note 7 to the consolidated financial statements for additional discussion.

**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), draws on our 2018 CLOC, 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 February through April. Therefore, we require the use of cash to fund losses and working capital needs from May through January, and typically rely on available cash balances from the prior tax season and borrowings to meet our off-season liquidity needs.

Given the likely availability of a number of liquidity options discussed herein, we believe that, in the absence of any unexpected developments, our existing sources of capital as of October 31, 2018 are sufficient to meet our operating, investing 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 six months ended October 31, 2018 and 2017. See Item 1 for the complete consolidated statements of cash flows for these periods.

|  | (in 000s)   |             |
|--|-------------|-------------|
| Six months ended October 31,                             | 2018        | 2017        |
| Net cash used in:  |             |             |
| Operating activities                                     | \$(627,691) | \$(648,457) |
| Investing activities                                     | (83,204 )   | (79,415 )   |
| Financing activities                                     | (226,268 )  | (106,858 )  |
| Effects of exchange rates on cash                        | (3,209 )    | (1,147 )    |
| Net change in cash, cash equivalents and restricted cash | \$(940,372) | \$(835,877) |

Operating Activities. Cash used in operations decreased, primarily due to changes in tax balances resulting from the Tax Legislation.

Investing Activities. Cash used in investing activities totaled \$83.2 million for the six months ended October 31, 2018 compared to \$79.4 million in the prior year period. This change resulted primarily from higher capital expenditures.

Financing Activities. Cash used in financing activities totaled \$226.3 million for the six months ended October 31, 2018 compared to \$106.9 million in the prior year period. This change resulted primarily from share repurchases completed in the current year, as discussed in Item 1, note 3 to the consolidated financial statements, and lower stock option exercises compared to the prior year.

**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 \$103.5 million and \$100.1 million for the six months ended October 31, 2018 and 2017, 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 \$3.5 billion share repurchase program, effective through June 2019. As a part of the repurchase program, in the current year, we purchased \$97.1 million of our common stock at an average price of \$23.27 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 the full Board authorization.

Capital Investment. Capital expenditures totaled \$66.4 million and \$56.8 million for the six months ended October 31, 2018 and 2017, respectively. Our capital expenditures relate primarily to recurring improvements to retail offices, as well as investments in computers, software and related assets. In addition to our capital expenditures, we also made payments to acquire franchisee and competitor businesses totaling \$24.5 million and \$27.5 million for the six months ended October 31, 2018 and 2017, respectively.

FINANCING RESOURCES – Our 2018 CLOC has capacity up to \$2.0 billion, and is scheduled to expire in September 2023. Proceeds under the 2018 CLOC may be used for working capital needs or for other general corporate purposes.

We were in compliance with our 2018 CLOC covenants and had no outstanding balance as of October 31, 2018.

Amounts available to borrow were limited by the debt-to-EBITDA covenant to approximately \$1.7 billion as of October 31, 2018. See Item 1, note 6 to the consolidated financial statements for discussion of the Senior Notes and our 2018 CLOC.

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The following table provides ratings for debt issued by Block Financial as of October 31, 2018 and April 30, 2018:

| As of   | October 31, 2018 |           |          | April 30, 2018 |           |         |
|---------|------------------|-----------|----------|----------------|-----------|---------|
|         | Short-term       | Long-term | Outlook  | Short-term     | Long-term | Outlook |
| Moody's | P-3              | Baa3      | Negative | P-3            | Baa3      | Stable  |
| S&P     | A-2              | BBB       | Stable   | A-2            | BBB       | Stable  |

Other than as described above, there have been no material changes in our borrowings from those reported as of April 30, 2018 in our Annual Report on Form 10-K.

**CASH AND OTHER ASSETS** – As of October 31, 2018, we held cash and cash equivalents, excluding restricted amounts, of \$600.8 million, including \$111.5 million held by our foreign subsidiaries.

**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 October 31, 2018.

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 \$3.2 million during the six months ended October 31, 2018 compared to a decrease of \$1.1 million in the prior year.

**CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS** – Except for our exercise of a purchase option to acquire an office building previously recorded as a capital lease as disclosed in Item 1, note 6, there have been no material changes in our contractual obligations and commercial commitments from those reported as of April 30, 2018 in our Annual Report on Form 10-K.

**REGULATORY ENVIRONMENT**

On November 17, 2017, the Consumer Financial Protection Bureau (CFPB) officially published its final rule changing the regulation of certain consumer credit products, including payday loans, vehicle title loans, and high-cost installment loans (Payday Rule). Certain limited provisions of the Payday Rule became effective on January 16, 2018, but most provisions do not become effective until August 19, 2019. The CFPB has announced that it expects to issue a Notice of Proposed Rulemaking by no later than early 2019 that will address reconsideration of the Payday Rule on the merits as well as address changes to its compliance date. In addition, on November 6, 2018, a Texas federal district court granted a stay of the August 19, 2019 compliance date. Given these developments, we are unsure whether, when, and in what form, the Payday Rule will go into effect. Depending on the outcome of the rulemaking process and litigation, which may include the Payday Rule becoming effective in its current form, the Payday Rule may have a material adverse impact on the EA product, our business, and our consolidated financial position, results of operations, and cash flows. We will continue to analyze the potential impact on the Company as the CFPB's rulemaking process progresses.

There have been no other material changes in our regulatory environment from what was reported as of April 30, 2018 in our Annual Report on Form 10-K.

**NON-GAAP FINANCIAL INFORMATION**

Non-GAAP financial measures should not be considered as a substitute for, or superior to, measures of financial performance prepared in accordance with 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 our non-GAAP financial measures to be performance measures and a useful metric for management and investors to evaluate and compare the ongoing operating performance of our business.

We may consider whether significant items that arise in the future should 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) from continuing operations, EBITDA margin from continuing operations, and





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free cash flow. We also use EBITDA from continuing operations and pretax income of continuing operations, each subject to permitted adjustments, as performance metrics in incentive compensation calculations for our employees. The following is a reconciliation of EBITDA from continuing operations to net loss:

|  | (in 000s)          |             |                  |             |
|--|--------------------|-------------|------------------|-------------|
|  | Three months ended |             | Six months ended |             |
|  | October 31,        |             | October 31,      |             |
|  | 2018               | 2017        | 2018             | 2017        |
| Net loss - as reported                                 | \$(176,276)        | \$(153,566) | \$(328,946)      | \$(284,133) |
| Discontinued operations, net                           | 5,339              | 5,254       | 9,212            | 8,003       |
| Net loss from continuing operations - as reported      | (170,937 )         | (148,312 )  | (319,734 )       | (276,130 )  |
| Add back:  |                    |             |                  |             |
| Income taxes of continuing operations                  | (61,053 )          | (87,953 )   | (111,021 )       | (165,354 )  |
| Interest expense of continuing operations              | 21,191             | 21,265      | 42,381           | 42,542      |
| Depreciation and amortization of continuing operations | 41,493             | 44,792      | 81,925           | 88,390      |
|  | 1,631              | (21,896 )   | 13,285           | (34,422 )   |
| EBITDA from continuing operations                      | \$(169,306)        | \$(170,208) | \$(306,449)      | \$(310,552) |

**FORWARD-LOOKING INFORMATION**

This report and other documents filed with the 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," "commits," "seeks," "estimates," "projects," "forecasts," "targets," "would," "will," "should," "goal," "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, client trajectory, income, effective tax rate, earnings per share, cost savings, capital expenditures, dividends, share repurchases, liquidity, capital structure, market share, industry volumes 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. In addition, factors that may cause the Company's actual effective tax rate to differ from estimates include the Company's actual results from operations compared to current estimates, future discrete items, changes in interpretations and assumptions the Company has made, guidance from the IRS, SEC, or the FASB about the Tax Legislation, and future actions of the Company. Investors should understand that it is not possible to predict or identify all such factors and, consequently, should not consider any such list to be a complete set of all potential risks or uncertainties.

Details about risks, 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, 2018 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, 2018.



Table of Contents**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

There have been no material changes in our market risks from those reported at April 30, 2018 in our Annual Report on Form 10-K.

**ITEM 4. CONTROLS AND PROCEDURES**

**EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES** – As of the end of the period covered by this Form 10-Q, management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, 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)). 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 10 to the consolidated financial statements.

**ITEM 1A. RISK FACTORS**

Except as described in Part I, Item 2, Regulatory Environment, there have been no material changes in our risk factors from those reported at April 30, 2018 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 second quarter of fiscal year 2019 is as follows: (in 000s, except per share amounts)

|                            | Total Number of<br>Shares Purchased <sup>(1)</sup> | Average<br>Price Paid<br>per Share | Total Number of Shares<br>Purchased as Part of<br>Publicly Announced Plans<br>or Programs <sup>(2)</sup> | Maximum<br>Dollar Value of<br>Shares that May<br>Yet Be<br>Purchased<br>Under the Plans<br>or Programs <sup>(2)</sup> |
|----------------------------|--|------------------------------------|--|---|
| August 1 - August 31       | 16   | \$ 26.92                           | —  | \$ 1,086,148  |
| September 1 - September 30 | —  | \$ —                               | —  | \$ 1,086,148  |
| October 1 - October 31     | —  | \$ —                               | —  | \$ 1,086,148  |
|                            | 16   | \$ 26.90                           | —  |   |

(1) We purchased approximately 16 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:

- 10.1 Third Amended and Restated Credit and Guarantee Agreement dated September 21, 2018, by and among Block Financial LLC, H&R Block, Inc., the lenders party thereto from time to time, and JPMorgan Chase Bank, N.A., as administrative agent, filed as Exhibit 10.1 to the Company's current report on Form 8-K filed on September 24, 2018, file number 1-06089, is incorporated herein by reference.
- 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.SCHXBRL Taxonomy Extension Schema
- 101.CALXBRL Extension Calculation Linkbase
- 101.LABXBRL Taxonomy Extension Label Linkbase
- 101.PREXBRL 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/ Jeffrey J. Jones II  
Jeffrey J. Jones II  
President and Chief Executive Officer  
December 7, 2018

/s/ Tony G. Bowen  
Tony G. Bowen  
Chief Financial Officer  
December 7, 2018

/s/ Kellie J. Logerwell  
Kellie J. Logerwell  
Chief Accounting Officer  
December 7, 2018

36Q2 FY2019 Form 10-Q | H&R Block, Inc.