H&R BLOCK INC
Form 10-Q
September 04, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)

þ	QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the quarterly period ended July 31, 2014
	OR
¨	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the transition period from to

Commission file number 1-6089
H&R Block, Inc.
(Exact name of registrant as specified in its charter)

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

One H&R Block Way, Kansas City, Missouri 64105
(Address of principal executive offices, including zip code)
(816) 854-3000
(Registrant's telephone number, including area code)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes þ No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes þ No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one)
Large accelerated filer þ Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨
(Do not check if a smaller reporting company)
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ¨ No þ
The number of shares outstanding of the registrant's Common Stock, without par value, at the close of business on August 31, 2014: 275,088,388 shares.

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Form 10-Q for the Period Ended July 31, 2014

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PART I FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)	(unaudited, in 000s, except per share amounts)	
Three months ended July 31,	2014	2013
REVENUES:		
Service revenues	$115,473	$107,800
Royalty, product and other revenues	8,814	8,198
Interest income	9,299	11,197
	133,586	127,195
OPERATING EXPENSES:		
Cost of revenues:		
Compensation and benefits	51,855	46,312
Occupancy and equipment	83,306	78,736
Provision for bad debt and loan losses	4,364	11,491
Interest	13,940	14,446
Depreciation and amortization	25,085	18,620
Other	32,971	40,448
	211,521	210,053
Selling, general and administrative:		
Marketing and advertising	8,145	7,123
Compensation and benefits	60,964	53,047
Depreciation and amortization	8,601	4,254
Other selling, general and administrative	19,490	32,273
	97,200	96,697
Total operating expenses	308,721	306,750
Operating loss	(175,135)	(179,555)
Other income (expense), net	(681)	(4,939)
Loss from continuing operations before income tax benefit	(175,816)	(184,494)
Income tax benefit	(66,965)	(71,224)
Net loss from continuing operations	(108,851)	(113,270)
Net loss from discontinued operations, net of tax benefits of $4,564 and $1,209	(7,381)	(1,917)
NET LOSS	$(116,232)	$(115,187)
BASIC AND DILUTED LOSS PER SHARE:		
Continuing operations	$(0.40)	$(0.42)
Discontinued operations	(0.02)	—
Consolidated	$(0.42)	$(0.42)
DIVIDENDS DECLARED PER SHARE	$0.20	$0.20
COMPREHENSIVE INCOME (LOSS):		
Net loss	$(116,232)	$(115,187)
Unrealized gains (losses) on securities, net of taxes:		
Unrealized holding losses arising during the period	(723)	(7,715)
Reclassification adjustment for losses included in income	574	—
Change in foreign currency translation adjustments	455	(3,092)

Other comprehensive income (loss)	306	(10,807)
Comprehensive loss	$(115,926)	$(125,994)

See accompanying notes to consolidated financial statements.

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CONSOLIDATED BALANCE SHEETS	(in 000s, except share and per share amounts)		
As of	July 31, 2014 (unaudited)	July 31, 2013 (unaudited)	April 30, 2014
ASSETS			
Cash and cash equivalents	$1,429,489	$1,163,876	$2,185,307
Cash and cash equivalents - restricted	71,917	55,477	115,319
Receivables, less allowance for doubtful accounts of $51,400, $52,606 and $52,578	122,315	121,309	191,618
Prepaid expenses and other current assets	264,666	364,270	198,267
Investments in available-for-sale securities	403,774	—	423,495
Total current assets	2,292,161	1,704,932	3,114,006
Mortgage loans held for investment, less allowance for loan losses of $10,561, $15,514 and $11,272	259,732	309,681	268,428
Investments in available-for-sale securities	4,289	487,033	4,329
Property and equipment, at cost less accumulated depreciation and amortization of $468,372, $432,681 and $446,049	314,531	286,584	304,911
Intangible assets, net	347,890	280,455	355,622
Goodwill	478,845	435,667	436,117
Other assets	193,371	258,536	210,116
Total assets	$3,890,819	$3,762,888	$4,693,529
LIABILITIES AND STOCKHOLDERS' EQUITY			
LIABILITIES:			
Customer banking deposits	$482,975	$757,929	$769,785
Accounts payable, accrued expenses and other current liabilities	485,205	443,065	569,007
Accrued salaries, wages and payroll taxes	30,996	32,926	167,032
Accrued income taxes	284,038	215,834	406,655
Current portion of long-term debt	400,705	730	400,637
Total current liabilities	1,683,919	1,450,484	2,313,116
Long-term debt	505,714	905,902	505,837
Other noncurrent liabilities	303,986	301,187	318,027
Total liabilities	2,493,619	2,657,573	3,136,980
COMMITMENTS AND CONTINGENCIES			
STOCKHOLDERS' EQUITY:			
Common stock, no par, stated value $.01 per share, 800,000,000 shares authorized, shares issued of 316,628,110	3,166	3,166	3,166
Convertible preferred stock, no par, stated value $0.01 per share, 500,000 shares authorized	—	—	—
Additional paid-in capital	766,014	753,209	766,654
Accumulated other comprehensive income (loss)	5,483	(257)	5,177
Retained earnings	1,418,124	1,163,651	1,589,297
Less treasury shares, at cost	(795,587)	(814,454)	(807,745)
Total stockholders' equity	1,397,200	1,105,315	1,556,549
Total liabilities and stockholders' equity	$3,890,819	$3,762,888	$4,693,529

See accompanying notes to consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS	(unaudited, in 000s)	
Three months ended July 31,	2014	2013
NET CASH USED IN OPERATING ACTIVITIES	$(381,585)	$(318,742)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of available-for-sale securities	(100)	(45,158)
Maturities of and payments received on available-for-sale securities	18,484	32,061
Principal payments on mortgage loans held for investment, net	6,250	11,707
Capital expenditures	(25,841)	(34,386)
Payments made for business acquisitions, net of cash acquired	(40,533)	(1,303)
Franchise loans:		
Loans funded	(7,398)	(6,657)
Payments received	18,674	7,164
Other, net	4,130	7,482
Net cash used in investing activities	(26,334)	(29,090)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Customer banking deposits, net	(287,609)	(179,364)
Dividends paid	(54,852)	(54,550)
Proceeds from exercise of stock options	13,368	21,953
Other, net	(19,316)	(17,294)
Net cash used in financing activities	(348,409)	(229,255)
Effects of exchange rate changes on cash	510	(6,621)
Net decrease in cash and cash equivalents	(755,818)	(583,708)
Cash and cash equivalents at beginning of the period	2,185,307	1,747,584
Cash and cash equivalents at end of the period	$1,429,489	$1,163,876
SUPPLEMENTARY CASH FLOW DATA:		
Income taxes paid, net of refunds received	$88,924	$106,467
Interest paid on borrowings	15,415	15,883
Interest paid on deposits	201	640
Transfers of foreclosed loans to other assets	1,818	2,100
Accrued additions to property and equipment	11,988	8,048
Transfer of mortgage loans held for investment to held for sale	—	7,608

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 July 31, 2014 and 2013, the consolidated statements of operations and comprehensive income (loss) for the three months ended July 31, 2014 and 2013, and the condensed consolidated statements of cash flows for the three months ended July 31, 2014 and 2013 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 July 31, 2014 and 2013 and for all periods presented have been made.

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

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the U. S. (GAAP) have been condensed or omitted. These consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in our April 30, 2014 Annual Report to Shareholders on Form 10-K. All amounts presented herein as of April 30, 2014 or for the year then ended are derived from our April 30, 2014 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, valuation allowances on deferred tax assets, reserves for uncertain tax positions and related matters. Estimates have been prepared based on the best information available as of each balance sheet date. As such, actual results could differ materially from those estimates.

SEASONALITY OF BUSINESS – Our operating revenues are seasonal in nature with peak revenues typically occurring in the months of 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 12 and 13 for additional information on litigation, claims and other loss contingencies related to our discontinued operations.

NOTE 2: H&R BLOCK BANK

In April 2014, our subsidiaries, H&R Block Bank (HRB Bank) and Block Financial LLC, the sole shareholder of HRB Bank (Block Financial), entered into a definitive Purchase and Assumption Agreement (P&A Agreement) with BofI Federal Bank, a federal savings bank (BofI). The P&A Agreement is subject to various closing conditions, including the receipt of certain required approvals, entry into certain additional agreements, and the fulfillment of various other customary conditions. If closing conditions (including regulatory approvals) are satisfied, we will complete a transaction in which we will sell assets and assign certain liabilities, including all of HRB Bank's deposit liabilities, to BofI (P&A Transaction). Due to the seasonality of our business, the timing of any closing will impact the amount of deposit liabilities transferred.

If a closing had occurred as of July 31, 2014, we would have made a cash payment to BofI for the difference in the carrying value of assets sold and the carrying value of liabilities transferred of approximately $465 million. The amount of the cash payment made at closing will primarily be equal to the carrying value of the liabilities to be transferred since the carrying value of the assets to be transferred is immaterial. Actual amounts at closing will differ from amounts as of July 31, 2014. In connection with the closing we intend to liquidate the AFS securities held by HRB Bank, which totaled $404 million at July 31, 2014.

In connection with the additional agreements being entered into upon the closing of the P&A Transaction, BofI will offer H&R Block-branded financial products distributed by the Company to the Company's clients. An operating subsidiary of the Company will provide certain marketing, servicing and operational support to BofI with respect to such financial products.

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The P&A Transaction is part of a three-step transaction pursuant to which the Company plans to divest HRB Bank (Divestiture Transaction), including: (1) the conversion of HRB Bank from a federal savings bank to a national bank; (2) the sale of certain HRB Bank assets and liabilities, including all deposit liabilities, to BofI in the P&A Transaction; and (3) the merger of HRB Bank with and into Block Financial.

The Company, H&R Block Group, Inc. and Block Financial (our Holding Companies) are savings and loan holding companies (SLHCs) because they control HRB Bank. By consummating the Divestiture Transaction, our Holding Companies will cease to be SLHCs and will no longer be subject to regulation by the Board of Governors of the Federal Reserve System (Federal Reserve) as SLHCs or to the regulatory capital requirements applicable to SLHCs.

The obligations of the parties to complete the P&A Transaction are subject to the fulfillment of numerous conditions, including regulatory approval. We cannot be certain when or if the conditions to and other components of the P&A Transaction will be satisfied, or whether the P&A Transaction will be completed. In addition, there may be changes to the terms and conditions of the P&A Agreement and other contemplated agreements as part of the regulatory approval process.

NOTE 3: LOSS PER SHARE AND STOCKHOLDERS' EQUITY

LOSS PER SHARE – Basic and diluted loss per share is computed using the two-class method. The two-class method is an earnings allocation formula that determines net income per share for each class of common stock and participating security according to dividends declared and participation rights in undistributed earnings. Per share amounts are computed by dividing net income from continuing operations attributable to common shareholders by the weighted average shares outstanding during each period. The dilutive effect of potential common shares is included in diluted earnings per share except in those periods with a loss from continuing operations. Diluted earnings per share excludes the impact of shares of common stock issuable upon the lapse of certain restrictions or the exercise of options to purchase 5.5 million shares for the three months ended July 31, 2014, and 6.3 million shares for the three months ended July 31, 2013, as the effect would be antidilutive due to the net loss from continuing operations during those periods.

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

(in 000s, except per share amounts)

Three months ended July 31,	2014	2013
Net loss from continuing operations attributable to shareholders	$(108,851)	$(113,270)
Amounts allocated to participating securities	(89)	(62)
Net loss from continuing operations attributable to common shareholders	$(108,940)	$(113,332)
Basic weighted average common shares	274,575	273,080
Potential dilutive shares	—	—
Dilutive weighted average common shares	274,575	273,080
Loss per share from continuing operations attributable to common shareholders:		
Basic	$(0.40)	$(0.42)
Diluted	(0.40)	(0.42)

STOCK-BASED COMPENSATION – During the three months ended July 31, 2014, we acquired 0.3 million shares of our common stock at an aggregate cost of $9.4 million. These shares represent shares swapped or surrendered to us in connection with the vesting or exercise of stock-based awards. During the three months ended July 31, 2013, we acquired 0.2 million shares at an aggregate cost of $4.2 million for similar purposes.

During the three months ended July 31, 2014 and 2013, we issued 1.1 million and 1.4 million shares of common stock, respectively, due to the vesting or exercise of stock-based awards.

During the three months ended July 31, 2014, we granted equity awards equivalent to 0.9 million shares under our stock-based compensation plans, consisting primarily of nonvested units. Nonvested units generally either vest over a three-year period with one-third vesting each year or cliff vest at the end of a three-year period. Stock-based compensation expense of our continuing operations totaled $7.5 million for the three months ended July 31, 2014

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and $4.6 million for the three months ended July 31, 2013. As of July 31, 2014, unrecognized compensation cost for stock options totaled $0.6 million, and for nonvested shares and units totaled $49.4 million.

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

(in 000s)

	Foreign Currency Translation Adjustments	Unrealized Gain (Loss) on AFS Securities	Total
Balances as of May 1, 2014	$3,334	$1,843	$5,177
Other comprehensive income (loss) before reclassifications:			
Gross gains (losses) arising during the year	455	(1,183)	(728)
Tax expense (benefit)	—	(460)	(460)
	455	(723)	(268)
Amounts reclassified to net income:			
Gross amount reclassified [(1)]	—	941	941
Tax benefit (expense)	—	367	367
	—	574	574
Net other comprehensive income (loss)	455	(149)	306
Balances as of July 31, 2014	$3,789	$1,694	$5,483
Balances as of May 1, 2013	$6,809	$3,741	$10,550
Other comprehensive income (loss) before reclassifications:			
Gross losses arising during the year	(3,092)	(12,780)	(15,872)
Tax benefit	—	(5,065)	(5,065)
Net other comprehensive loss	(3,092)	(7,715)	(10,807)
Balances as of July 31, 2013	$3,717	$(3,974)	$(257)

(1) Amount represents other-than-temporary impairments on AFS securities.

Gross amounts reclassified out of accumulated other comprehensive income are included in other income (expense), net in the consolidated income statements.

NOTE 4: RECEIVABLES

Receivables consist of the following:

(in 000s)

As of	July 31, 2014		July 31, 2013		April 30, 2014	
	Short-term	Long-term	Short-term	Long-term	Short-term	Long-term
Loans to franchisees	$62,195	$83,013	$64,041	$106,119	$63,716	$90,747
Receivables for tax preparation and related fees	38,204	—	37,547	—	45,619	—
Cash Back® receivables	4,170	—	2,412	—	48,812	—
Emerald Advance lines of credit	20,239	2,839	22,649	6,906	20,577	3,862
Royalties from franchisees	4,278	—	4,070	—	9,978	—
Note receivable	—	—	—	61,561	—	—
Other	44,629	15,294	43,196	27,774	55,494	17,186
	173,715	101,146	173,915	202,360	244,196	111,795
Allowance for doubtful accounts	(51,400)	—	(52,606)	(4,272)	(52,578)	—
	$122,315	$101,146	$121,309	$198,088	$191,618	$111,795

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

H&R BLOCK EMERALD ADVANCE® LINES OF CREDIT – We review the credit quality of our H&R Block Emerald Advance® lines of credit (EA) receivables based on pools, which are segregated by the year of origination, with older years being deemed more unlikely to be repaid. These amounts as of July 31, 2014, by year of origination, are as follows:

(in 000s)	
Credit Quality Indicator – Year of origination:	
2014	$4,350
2013	1,614
2012 and prior	4,496
Revolving loans	12,618
	$23,078

As of July 31, 2014 and 2013 and April 30, 2014, $20.0 million, $26.8 million and $20.7 million of EAs were on non-accrual status and classified as impaired, or more than 60 days past due, respectively.

LOANS TO FRANCHISEES – Franchisee loan balances as of July 31, 2014 and 2013 and April 30, 2014, consisted of $99.7 million, $124.2 million and $109.1 million, respectively, in term loans made primarily to finance the purchase of franchises and $45.5 million, $46.0 million and $45.4 million, respectively, in revolving lines of credit primarily for the purpose of funding off-season working capital needs.

As of July 31, 2014 and 2013, loans with a principal balance of $0.8 million and $2.5 million, respectively, were more than 30 days past due, while we had no loans more than 30 days past due at April 30, 2014. We had no loans to franchisees on non-accrual status.

CANADIAN CASH BACK® PROGRAM – Refunds advanced under the Cash Back program are not subject to credit approval, therefore the primary indicator of credit quality is the age of the receivable amount. Cash Back amounts are generally received within 60 days of filing the client's return. As of July 31, 2014 and 2013 and April 30, 2014, $1.1 million, $0.8 million and $1.9 million of Cash Back balances were more than 60 days old, respectively.

ALLOWANCE FOR DOUBTFUL ACCOUNTS – Activity in the allowance for doubtful accounts for our short-term and long-term receivables for the three months ended July 31, 2014 and 2013 is as follows:

(in 000s)	EAs	Loans to Franchisees	Cash Back ®	All Other	Total
Balances as of May 1, 2014	$7,530	$—	$3,002	$42,046	$52,578
Provision	—	—	113	2,729	2,842
Charge-offs	—	—	(789)	(3,231)	(4,020)
Balances as of July 31, 2014	$7,530	$—	$2,326	$41,544	$51,400
Balances as of May 1, 2013	$7,390	$—	$2,769	$47,544	$57,703
Provision	—	—	158	2,901	3,059
Charge-offs	—	—	(673)	(3,211)	(3,884)
Balances as of July 31, 2013	$7,390	$—	$2,254	$47,234	$56,878

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NOTE 5: MORTGAGE LOANS HELD FOR INVESTMENT

The composition of our mortgage loan portfolio is as follows:

(dollars in 000s)

As of	July 31, 2014		July 31, 2013		April 30, 2014	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Adjustable-rate loans	$144,096	54 %	$174,481	54 %	$149,480	54 %
Fixed-rate loans	123,991	46 %	147,973	46 %	127,943	46 %
	268,087	100 %	322,454	100 %	277,423	100 %
Unamortized deferred fees and costs	2,206		2,741		2,277	
Less: Allowance for loan losses	(10,561)		(15,514)		(11,272)	
	$259,732		$309,681		$268,428	

Our loan loss allowance as a percent of mortgage loans was 3.9% as of July 31, 2014, compared to 4.8% as of July 31, 2013 and 4.1% as of April 30, 2014.

Activity in the allowance for loan losses for the three months ended July 31, 2014 and 2013 is as follows:

(in 000s)

Three months ended July 31,	2014	2013
Balance at beginning of the period	$11,272	$14,314
Provision	725	7,603
Recoveries	679	767
Charge-offs	(2,115)	(7,170)
Balance at end of the period	$10,561	$15,514

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

(in 000s)

As of	July 31, 2014		July 31, 2013		April 30, 2014	
	Portfolio Balance	Related Allowance	Portfolio Balance	Related Allowance	Portfolio Balance	Related Allowance
Pooled (less than 60 days past due)	$152,427	$4,242	$186,082	$5,734	$158,496	$4,508
Impaired:						
Individually (TDRs)	41,649	4,070	50,136	4,866	43,865	4,346
Individually (60 days or more past due)	74,011	2,249	86,236	4,914	75,062	2,418
	$268,087	$10,561	$322,454	$15,514	$277,423	$11,272

Detail of our mortgage loans held for investment and the related allowance as of July 31, 2014 is as follows:

(dollars in 000s)

	Outstanding Principal Balance	Loan Loss Allowance Amount	% of Principal	% 30+ Days Past Due
Purchased from SCC	$ 154,176	$8,420	5.5 %	26.6 %
All other	113,911	2,141	1.9 %	7.3 %
	$ 268,087	$10,561	3.9 %	18.4 %

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Credit quality indicators as of July 31, 2014 include the following:
(in 000s)

Credit Quality Indicators	Purchased from SCC	All Other	Total Portfolio
Occupancy status:			
Owner occupied	$113,361	$75,436	$188,797
Non-owner occupied	40,815	38,475	79,290
	$154,176	$113,911	$268,087
Documentation level:			
Full documentation	$51,544	$81,354	$132,898
Limited documentation	4,789	12,459	17,248
Stated income	85,256	12,480	97,736
No documentation	12,587	7,618	20,205
	$154,176	$113,911	$268,087
Internal risk rating:			
High	$43,423	$—	$43,423
Medium	110,753	—	110,753
Low	—	113,911	113,911
	$154,176	$113,911	$268,087

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

Our mortgage loans held for investment include concentrations of loans to borrowers in certain states, which may result in increased exposure to loss as a result of changes in real estate values and underlying economic or market conditions related to a particular geographical location. Approximately 51% of our mortgage loan portfolio consists of loans to borrowers located in the states of Florida, California and New York.

Detail of the aging of the mortgage loans in our portfolio as of July 31, 2014 is as follows:
(in 000s)

	Less than 60 Days Past Due	60 – 89 Days Past Due	90+ Days Past Due[1]	Total Past Due	Current	Total
Purchased from SCC	$9,245	$1,623	$50,524	$61,392	$92,784	$154,176
All other	6,489	195	8,334	15,018	98,893	113,911
	$15,734	$1,818	$58,858	$76,410	$191,677	$268,087

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

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

(in 000s)			
As of	July 31, 2014	July 31, 2013	April 30, 2014
Loans:			
Purchased from SCC	$62,389	$68,740	$61,767
Other	12,017	14,860	12,528
	74,406	83,600	74,295
TDRs:			
Purchased from SCC	4,394	3,247	4,648
Other	828	500	951
	5,222	3,747	5,599
Total non-accrual loans	$79,628	$87,347	$79,894

Information related to impaired loans is as follows:

(in 000s)	Balance With Allowance	Balance With No Allowance	Total Impaired Loans	Related Allowance
As of July 31, 2014:				
Purchased from SCC	$28,239	$ 68,507	$96,746	$5,211
Other	4,359	14,555	18,914	1,108
	$32,598	$ 83,062	$115,660	$6,319
As of July 31, 2013:				
Purchased from SCC	$33,088	$ 80,132	$113,220	$7,396
Other	6,603	16,549	23,152	2,384
	$39,691	$ 96,681	$136,372	$9,780
As of April 30, 2014:				
Purchased from SCC	$27,924	$ 71,075	$98,999	$3,239
Other	5,176	14,752	19,928	3,525
	$33,100	$ 85,827	$118,927	$6,764

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

(in 000s)			
As of	July 31, 2014	July 31, 2013	April 30, 2014
Portion of total allowance for loan losses allocated to impaired loans and TDR loans:			
Based on collateral value method	$2,249	$4,914	$2,418
Based on discounted cash flow method	4,070	4,866	4,346
	$6,319	$9,780	$6,764

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

(in 000s)		
Three months ended July 31,	2014	2013
Average impaired loans:		
Purchased from SCC	$105,682	$130,287
All other	20,691	25,328
	$126,373	$155,615

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NOTE 6: INVESTMENTS

The amortized cost and fair value of securities classified as available-for-sale (AFS) are summarized below:
(in 000s)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
As of July 31, 2014:				
Mortgage-backed securities	$401,092	$2,582	$—	$403,674
Municipal bonds	4,106	183	—	4,289
U.S. treasury bills	100	—	—	100
	$405,298	$2,765	$—	$408,063
As of July 31, 2013:				
Mortgage-backed securities	489,401	3,825	(10,623)	482,603
Municipal bonds	4,164	266	—	4,430
	$493,565	$4,091	$(10,623)	$487,033
As of April 30, 2014:				
Mortgage-backed securities	$420,697	$2,798	$—	$423,495
Municipal bonds	4,120	209	—	4,329
	$424,817	$3,007	$—	$427,824

Substantially all AFS debt securities held as of July 31, 2014 mature after five years.

NOTE 7: GOODWILL AND INTANGIBLE ASSETS

Changes in the carrying amount of goodwill of our Tax Services segment for the three months ended July 31, 2014 and 2013 are as follows:
(in 000s)

	Goodwill	Accumulated Impairment Losses	Net
Balances as of April 30, 2014	$468,414	$(32,297)	$436,117
Acquisitions	42,274	—	42,274
Disposals and foreign currency changes, net	454	—	454
Impairments	—	—	—
Balances as of July 31, 2014	$511,142	$(32,297)	$478,845
Balances as of April 30, 2013	$467,079	$(32,297)	$434,782
Acquisitions	2,155	—	2,155
Disposals and foreign currency changes, net	(1,270)	—	(1,270)
Impairments	—	—	—
Balances as of July 31, 2013	$467,964	$(32,297)	$435,667

The increase in goodwill resulted from acquired franchisee and competitor businesses during the period. We expect the purchase price allocation to be finalized during fiscal year 2015.

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

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Components of the intangible assets of our Tax Services segment are as follows:
(in 000s)

	Gross Carrying Amount	Accumulated Amortization	Net
As of July 31, 2014:			
Reacquired franchise rights	$233,749	$(29,152)	$204,597
Customer relationships	123,130	(62,514)	60,616
Internally-developed software	104,580	(75,243)	29,337
Noncompete agreements	24,697	(22,408)	2,289
Franchise agreements	19,201	(7,254)	11,947
Purchased technology	54,974	(15,870)	39,104
	$560,331	$(212,441)	$347,890
As of July 31, 2013:			
Reacquired franchise rights	$214,330	$(19,235)	$195,095
Customer relationships	100,688	(51,007)	49,681
Internally-developed software	93,739	(74,572	