H&R BLOCK INC
Form 10-K/A
March 31, 2006

Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K/A
AMENDMENT NO. 2

(Mark One)

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

For the fiscal year ended: April 30, 2005

OR

o **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 Number)

4400 Main Street, Kansas City, Missouri 64111

(Address of principal executive offices, including zip code)

(816) 753-6900

(Registrant s telephone number, including area code)

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

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

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

Common Stock, without par value

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No o.

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes o No þ.

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 o.

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

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

Large accelerated filer þ Accelerated filer o Non-accelerated filer o

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

The aggregate market value of the registrant s Common Stock (all voting stock) held by non-affiliates of the registrant, computed by reference to the price at which the stock was sold on October 31, 2004, was $7,683,275,768.

Number of shares of registrant s Common Stock, without par value, outstanding on June 30, 2005: 331,940,594.

Documents incorporated by reference

The definitive proxy statement relating to the registrant s Annual Meeting of Shareholders, to be held September 7, 2005, is incorporated by reference in Part III to the extent described therein.

2005 FORM 10-K/A No. 2 AND ANNUAL REPORT
TABLE OF CONTENTS

PART II

Item 6.	Selected Financial Data	2
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	2
Item 8.	Financial Statements and Supplementary Data	23
Item 9A.	Controls and Procedures	63

PART IV

Item 15.	Exhibits and Financial Statement Schedules	65
	Signatures	66

Consent of KPMG LLP
Consent of PricewaterhouseCoopers LLP
Certification by CEO Pursuant to Section 302
Certification by CFO Pursuant to Section 302
Certification by CEO Furnished Pursuant to 18 U.S.C. 1350
Certification by CFO Furnished Pursuant to 18 U.S.C. 1350

EXPLANATORY NOTE

This Amendment No. 2 on Form 10-K/A (Form 10-K/A2) to the company s Annual Report on Form 10-K for the year ended April 30, 2005, initially filed with the Securities and Exchange Commission on August 1, 2005, is being filed to reflect restatements of our consolidated balance sheets at April 30, 2005 and 2004, consolidated statements of income and comprehensive income, of cash flows and of stockholders equity for each of the two years in the period ended April 30, 2005, and the notes related thereto. See detail discussion of the restatements in Item 8, note 2 to our consolidated financial statements.

On February 22, 2006, the Company s management and the Audit Committee of the Board of Directors concluded to restate previously issued consolidated financial statements for the fiscal years ended April 30, 2005 and 2004 and the related fiscal quarters. The Company arrived at this conclusion during the course of its closing process for the quarter ended January 31, 2006.

The restatement pertains primarily to errors in determining the Company s state effective income tax rate, including errors in identifying changes in state apportionment, expiring state net operating losses and related factors, for the fiscal years ended April 30, 2005 and 2004, and the related fiscal quarters.

The following items have been amended as a result:

Part II Item 6. Selected Financial Data

Part II Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

Part II Item 8. Financial Statements and Supplementary Data

Part II Item 9A. Controls and Procedures

Part II Item 15. Exhibits and Financial Statement Schedules

In addition, this amendment includes the following exhibits:

Exhibit 23.1 Consent of KPMG LLP, Independent Registered Public Accounting Firm.

Exhibit 23.2 Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm.

Exhibit 31.1 Certification by Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 31.2 Certification by Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 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.

Exhibit 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.

Table of Contents

PART II

ITEM 6. SELECTED FINANCIAL DATA

We derived the selected historical consolidated financial data presented below as of and for each of the five years in the period ended April 30, 2005 from our consolidated financial statements. The data for all periods presented has been restated. The data for fiscal years 2005 and 2004 was restated in March 2006 to reflect corrections to income taxes. The data for fiscal years 2004, 2003, 2002 and 2001 was restated in August 2005 to reflect corrections to gain on sale accounting, incentive compensation accruals, lease accounting, capitalization of certain branch office costs, acquisition accounting and income taxes. These restatements are more fully described in Item 8, note 2 to our consolidated financial statements. The data set forth below should be read in conjunction with Item 7 and our consolidated financial statements.

The impact of the restatement on fiscal year 2002 resulted in an increase in net income of $6.9 million, or $.02 per basic and diluted share, and a decrease of $9.5 million in total assets. The impact on fiscal year 2001 resulted in an increase in net income of $1.5 million, or $.00 per basic and diluted share, and an increase of $4.9 million in total assets.

(in 000s, except per share amounts)

April 30,	**Restated 2005**	Restated 2004	Restated 2003	Restated 2002	Restated 2001
Revenues	**$ 4,420,019**	$ 4,247,880	$ 3,731,126	$ 3,311,943	$ 2,982,157
Net income before change in accounting principle	**623,910**	700,452	477,615	441,287	278,211
Net income	**623,910**	694,093	477,615	441,287	282,625
Basic earnings per share:					
Net income before change in accounting principle	**$ 1.88**	$ 1.98	$ 1.33	$ 1.21	$ .76
Net income	**1.88**	1.96	1.33	1.21	.77
Diluted earnings per share:					
Net income before change in accounting principle	**$ 1.85**	$ 1.94	$ 1.30	$ 1.17	$ .75
Net income	**1.85**	1.92	1.30	1.17	.76
Total assets	**$ 5,538,056**	$ 5,233,827	$ 4,666,502	$ 4,396,731	$ 4,170,980
Long-term debt	**923,073**	545,811	822,302	868,387	870,974
Dividends per share	**$ .43**	$ .39	$ .35	$ .32	$ .29

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

The accompanying Management s Discussion and Analysis of Financial Condition and Results of Operations reflects the restatements of previously issued financial statements, as discussed in Item 8, note 2 to our consolidated financial statements. All share and per share amounts in this document have been adjusted to reflect the retroactive effect of the stock split.

We are a diversified company with subsidiaries delivering tax, investment, mortgage and business services and products. We are the only major company offering a full range of software, online and in-office tax preparation solutions, combined with personalized financial advice concerning retirement savings, home ownership and other opportunities to help clients build a better financial future.

Our key strategic priorities can be summarized as follows:

Tax Services continue expanding our office network, improve our client service and satisfaction scores, focus on advice that supports client growth and increased brand loyalty.

Mortgage Services continue growing origination volumes while lowering our cost of origination, distinguish our service quality, minimize risk and volatility in performance and optimize value from secondary markets.

Business Services continue expansion of our national accounting, tax and consulting business, add extended services to middle-market companies and enhance our client service culture.

Investment Services work to align the segment s cost structure with its revenues, attract and retain productive advisors, serve the broad consumer market through advisory relationships and integrate the Tax Services client base into this segment.

OVERVIEW >>>

A summary of our fiscal year 2005 results is as follows:

Revenues grew 4.1% over the prior year, primarily due to our Tax Services and Business Services segments, with this growth somewhat offset by a revenue decline at our Mortgage Services segment.

Diluted earnings per share declined 3.6% from fiscal year 2004 to $1.85, primarily due to lower profitability in our Mortgage Services segment. Current year results included a

Table of Contents

non-operating gain of $0.03 per diluted share for legal recoveries.

Tax Services fell short of its target client levels, although increases in our pricing and the complexity of returns prepared allowed the segment s revenue growth to continue. Segment revenues increased 7.6% over the prior year and segment pretax income increased $25.0 million, or 3.9%.

Mortgage Services origination volumes of $31.0 billion were at record levels, but margin compression drove gains on sales of mortgage assets to decline 10.5% to $822.1 million.

Business Services revenues and pretax income increased 14.8% and 54.7%, respectively, over the prior year. The increase was primarily due to higher demand for traditional accounting, tax and consulting services.

Investment Services reported a pretax loss of $75.4 million compared to $75.6 million in the prior year. Operating results for the fourth quarter of fiscal year 2005 showed marked improvement, which we hope will continue into the fiscal year 2006.

(in 000s, except per share amounts)

Consolidated Results of Operations

Year ended April 30,	**Restated 2005**	Restated 2004	Restated 2003
REVENUES >>>			
Tax Services	**$ 2,358,293**	$ 2,191,177	$ 1,946,763
Mortgage Services	**1,246,018**	1,323,709	1,150,080
Business Services	**573,316**	499,210	434,140
Investment Services	**239,244**	229,470	200,794
Corporate	**3,148**	4,314	(651)
	$ 4,420,019	$ 4,247,880	$ 3,731,126
PRETAX INCOME (LOSS) >>>			
Tax Services	**$ 663,518**	$ 638,493	$ 556,703
Mortgage Services	**496,093**	688,523	656,324
Business Services	**29,871**	19,312	(16,033)
Investment Services	**(75,370)**	(75,614)	(219,421)
Corporate	**(96,397)**	(107,739)	(122,009)
	1,017,715	1,162,975	855,564
Income taxes	**393,805**	462,523	377,949
Net income before change in accounting principle	**623,910**	700,452	477,615
Cumulative effect of change in accounting principle		(6,359)	
Net income	**$ 623,910**	$ 694,093	$ 477,615
Basic earnings per share	**$ 1.88**	$ 1.96	$ 1.33
Diluted earnings per share	**1.85**	1.92	1.30

CRITICAL ACCOUNTING POLICIES >>>

We consider the policies discussed below to be critical to securing an understanding of our financial statements, as they require the use of significant judgment and estimation in order to measure, at a specific point in time, matters that

are inherently uncertain. Specific risks for these critical accounting policies are described in the following paragraphs. For all of these policies, we caution that future events rarely develop precisely as forecasted, and estimates routinely require adjustment and may require material adjustment.

REVENUE RECOGNITION >>> We have many different revenue sources, each governed by specific revenue recognition policies. Our revenue recognition policies can be found in Item 8, note 1 to our consolidated financial statements. Additional discussion of our recognition of gains on sales of mortgage assets follows.

GAINS ON SALES OF MORTGAGE ASSETS >>> We sell substantially all of the non-prime mortgage loans we originate to the Trusts, which are qualifying special purpose entities (QSPEs), with servicing rights generally retained. Prime mortgage loans are sold in whole loan sales, servicing released, to third-party buyers. Gains on sales of mortgage assets are recognized when control of the assets is surrendered (when loans are sold to Trusts) and are based on the difference between cash proceeds and the allocated cost of the assets sold.

We determine the allocated cost of assets sold based on the relative fair values of cash proceeds, MSRs and the beneficial interest in Trusts, which represents the ultimate expected outcome from the Trusts disposition of the loans. The relative fair value of the MSRs and the beneficial interest in Trust is determined using discounted cash flow models, which require various management assumptions, limited by the ultimate expected outcome from the disposition of the loans by the Trusts (see discussion below in Valuation of Residual Interests and Valuation of Mortgage Servicing Rights). The following is an example of a hypothetical gain on sale calculation:

Table of Contents

	(in 000s)
Acquisition cost of underlying mortgage loans	$ 1,000,000
Fair values:	
Net proceeds	$ 990,000
Beneficial interest in Trusts	20,000
MSRs	9,000
	$ 1,019,000
Computation of gain on sale:	
Net proceeds	$ 990,000
Less allocated cost ($990,000 / $1,019,000 x $1,000,000)	971,541
Recorded gain on sale	$ 18,459
Recorded beneficial interest in Trusts ($20,000 / $1,019,000 x $1,000,000)	$ 19,627
Recorded value of MSRs ($9,000 / $1,019,000 x $1,000,000)	$ 8,832

Variations in the assumptions we use affect the estimated fair values, which would affect the reported gains on sales. Gains on sales of mortgage loans totaled $772.1 million, $915.6 million and $792.1 million for fiscal years 2005, 2004 and 2003, respectively.

See discussion in Off-Balance Sheet Financing Arrangements related to the disposition of the loans by the Trusts and subsequent securitization by the Company.

VALUATION OF RESIDUAL INTERESTS >>> We use discounted cash flow models to determine the estimated fair values of our residual interests. We develop our assumptions for expected losses, prepayment speeds, discount rates and interest rates based on historical experience and third-party market sources. Variations in our assumptions could materially affect the estimated fair values, which may require us to record impairments or unrealized gains. In addition, variations will also affect the amount of residual interest accretion recorded on a monthly basis. Residual interests valued at $205.9 million and $211.0 million were recorded as of April 30, 2005 and 2004, respectively. We recorded $95.9 million in net write-ups in other comprehensive income and $12.2 million in impairments in the income statement related to our residual interests during fiscal year 2005 as actual performance differed from our assumptions. See Item 8, note 1 to our consolidated financial statements for our methodology used in valuing residual interests. See Item 8, note 6 to our consolidated financial statements for current assumptions and a sensitivity analysis of those assumptions. See Item 7A for sensitivity analysis related to interest rates.

VALUATION OF MORTGAGE SERVICING RIGHTS >>> MSRs are carried at the lower of cost or fair value. We use discounted cash flow models to determine the estimated fair values of our MSRs. Fair values take into account the historical prepayment activity of the related loans and our estimates of the remaining future cash flows to be generated through servicing the underlying mortgage loans. Variations in our assumptions could materially affect the estimated fair values, which may require us to record impairments.

Prepayment speeds are somewhat correlated with the movement of market interest rates. As market interest rates decline there is a corresponding increase in actual and expected borrower prepayments as customers refinance existing mortgages under more favorable interest rate terms. This in turn reduces the anticipated cash flows associated with servicing resulting in a reduction, or impairment, to the fair value of the capitalized MSR. Prepayment rates are estimated based on historical experience and third-party market sources. Many non-prime loans have a prepayment penalty in place for the first two to three years, which has the effect of making prepayment speeds more predictable, regardless of market interest rate movements. If actual prepayment rates prove to be higher than the estimate made by

management, impairment of the MSRs could occur.

MSRs valued at $166.6 million and $113.8 million were recorded as of April 30, 2005 and 2004, respectively. See Item 8, note 1 to our consolidated financial statements for our methodology used in stratifying and valuing MSRs. See Item 8, note 6 to our consolidated financial statements for current assumptions and a sensitivity analysis of those assumptions.

VALUATION OF GOODWILL >>> Our goodwill impairment analysis is based on a discounted cash flow approach and market comparables, when available. This analysis, at the reporting unit level, requires significant management judgment with respect to revenue and expense growth rates, changes in working capital, and the selection and application of an appropriate discount rate. Changes in the projections or assumptions could materially affect fair values. The use of different assumptions would increase or decrease estimated discounted future operating cash flows and could increase or decrease any impairment charge.

Our goodwill balance was $1.0 billion as of April 30, 2005 and $993.5 million as of April 30, 2004. No goodwill impairments were identified during fiscal years 2005 or 2004. In fiscal year 2003, a goodwill impairment charge of $108.8 million was recorded in the Investment Services segment due to unsettled market conditions. Also during 2003, our annual impairment test resulted in an impairment of $13.5 million for a reporting unit within the Business Services segment. No other impairments were identified.

LITIGATION >>> Our policy is to routinely assess the likelihood of any adverse judgments or outcomes related to legal matters, as well as ranges of probable losses. A determination of the amount of the reserves required, if any, for these

Table of Contents

contingencies is made after thoughtful analysis of each known issue and an analysis of historical experience in accordance with Statement of Financial Accounting Standards No. 5, Accounting for Contingencies, and related pronouncements. Therefore, we have recorded reserves related to certain legal matters for which it is probable that a loss has been incurred and the range of such loss can be estimated. With respect to other matters, we have concluded that a loss is only reasonably possible or remote and, therefore, no liability is recorded.

STOCK-BASED COMPENSATION >>> Stock-based compensation expense is determined based on the grant-date fair value and the number of equity instruments that vest. We use the Black-Scholes model to calculate the fair value for stock options and employee stock purchase plan (ESPP) shares using the following assumptions: stock volatility, expected life, risk-free interest rate and dividend yield. The fair value of restricted shares is the stock price on the date of the grant. We also estimate, based on historical data, the percent of equity instruments expected to vest. Variations in the assumptions used to calculate fair value could either positively or negatively affect the recorded expense. Variations between actual performance and the estimate of vesting could result in timing adjustments recorded at the end of the vesting period. Additionally, changes in accounting rules related to stock-based compensation could result in changes to our assumptions of fair value and expense recognition.

We began expensing all stock-based compensation awards under the prospective transition method beginning on May 1, 2003. Therefore, our income statements do not fully reflect the expense related to all of our stock options and restricted shares outstanding. We recorded $44.1 million, $25.7 million and $2.1 million in stock-based compensation expense during fiscal years 2005, 2004 and 2003, respectively.

INCOME TAXES >>> We calculate our current and deferred tax provision based on estimates and assumptions that could differ from the actual results reflected in income tax returns filed during the applicable calendar year. Adjustments based on filed returns are recorded when identified. We file a consolidated federal tax return on a calendar year basis, generally in the second fiscal quarter of the subsequent year.

We record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. We have considered taxable income in carry-back periods, historical and forecasted earnings, future taxable income, the mix of earnings in the jurisdictions in which we operate, and tax planning strategies in determining the need for a valuation allowance against our deferred tax assets. In the event we were to determine that we would not be able to realize all or part of our deferred tax assets in the future, an adjustment to the deferred tax assets would be charged to earnings in the period in which we make such determination. Likewise, if we later determine that it is more likely than not that the deferred tax assets would be realized, we would reverse the applicable portion of the previously provided valuation allowance.

The amount of income taxes we pay is subject to ongoing audits by federal, state and foreign tax authorities, which may result in proposed assessments. Our estimate for the potential outcome for any uncertain tax issue is highly judgmental. We believe we have adequately provided for any reasonably foreseeable outcome related to these matters. However, our future results may include favorable or unfavorable adjustments to our estimated tax liabilities in the period the assessments are made or resolved or when statutes of limitation on potential assessments expire. As a result, our effective tax rate may fluctuate on a quarterly basis.

As discussed in Item 9A, Controls and Procedures, we reported a material weakness in our internal controls over accounting for income taxes as of April 30, 2005.

OTHER SIGNIFICANT ACCOUNTING POLICIES >>> Other significant accounting policies, not involving the same level of measurement uncertainties as those discussed above, are nevertheless important to an understanding of the financial statements. These policies require difficult judgments on complex matters that are often subject to multiple sources of authoritative guidance. Certain of these matters are among topics currently under reexamination by accounting standard setters and regulators. Although no specific conclusions reached by these standard setters appear likely to cause a material change in our accounting policies, outcomes cannot be predicted with confidence. Also see Item 8, note 1 to our consolidated financial statements, which discusses accounting policies we have selected when there are acceptable alternatives.

Table of Contents

RESULTS OF OPERATIONS >>>

Our business is divided into four reportable segments: Tax Services, Mortgage Services, Business Services and Investment Services.

TAX SERVICES

This segment primarily consists of our income tax preparation businesses retail, online and software. The previously reported U.S. Tax Operations has been aggregated with the International Tax Operations segment in the Tax Services segment.

Tax Services Operating Statistics			(in 000s, except average fee)
Year Ended April 30,	**2005**	2004[1]	2003[1]
CLIENTS SERVED >>>			
United States:			
Company-owned offices	**10,608**	10,627	10,105
Franchise offices	**5,428**	5,460	6,488
	16,036	16,087	16,593
Digital tax solutions:			
Software [2]	**1,804**	2,027	1,963
Online [3]	**1,213**	1,207	920
	19,053	19,321	19,476
International [4]	**2,333**	2,253	2,227
	21,386	21,574	21,703
AVERAGE FEE PER CLIENT SERVED [5] >>>			
Company-owned offices	**$ 158.19**	$ 146.34	$ 137.16
Franchise offices	**135.98**	127.91	118.05
	$ 150.67	$ 140.09	$ 129.69
RALs[6] >>>			
Company-owned offices	**2,667**	2,713	2,768
Franchise offices	**1,499**	1,508	1,790
Digital tax solutions:			
Software	**2**	5	
Online	**32**	57	75
	4,200	4,283	4,633

(1) Company-owned and franchise data for fiscal years 2004 and 2003 have not

been restated for franchise acquisitions.

(2) Includes TaxCut federal units sold.

(3) Includes online completed and paid federal returns, and state returns only when no payment was made for a federal return.

(4) The end of the Canadian tax season was extended from April 30 to May 2, 2005. Clients served in our international operations in fiscal year 2005 includes approximately 47,500 returns in both company-owned and franchise offices which were accepted by the client on May 1 and 2, 2005. The revenues related to these returns will be recognized in fiscal year 2006.

(5) Calculated as gross tax preparation and related fees divided by clients served

(U.S. only).

(6) Data is for tax season (January 1 April 30) only.

Tax Services Financial Results (in 000s)

Year Ended April 30,	**2005**	Restated 2004	Restated 2003
Service revenues:			
Tax preparation and related fees	**$ 1,718,867**	$ 1,589,439	$ 1,437,835
Online tax services	**49,515**	44,915	25,892
Other service revenues	**143,648**	127,602	97,794
	1,912,030	1,761,956	1,561,521
Royalties	**197,551**	184,882	174,659
RAL participation fees	**182,784**	168,375	896
RAL waiver fees		6,548	138,242
Software sales	**44,419**	43,823	39,314
Other	**21,509**	25,593	32,131
Total revenues	**2,358,293**	2,191,177	1,946,763
Cost of services:			
Compensation and benefits	**726,654**	672,066	591,556
Occupancy	**281,772**	255,516	225,045
Depreciation and amortization	**54,579**	48,808	42,505
Supplies	**47,703**	40,792	40,992
Bad debt	**33,046**	27,328	32,653
Other	**103,560**	92,137	125,653
	1,247,314	1,136,647	1,058,404
Cost of software sales	**37,819**	41,895	34,842
Selling, general and administrative	**409,642**	374,142	296,814
Total expenses	**1,694,775**	1,552,684	1,390,060
Pretax income	**$ 663,518**	$ 638,493	$ 556,703

FISCAL 2005 COMPARED TO FISCAL 2004 >>> Tax Services revenues increased $167.1 million, or 7.6%, compared to the prior year. Fiscal year 2005 was the first year of a multi-year strategy to expand our retail distribution network, to increase client growth by providing more convenient access to our services and to react to increased competition in the tax preparation market. In the U.S., we opened a net 1,252 new offices, 609 of which were part of the expansion of our company-owned retail distribution network. This expansion contributed incremental revenues of $24.9 million and pretax losses of $18.9 million. Clients served in our U.S. company-owned offices declined 0.2% from the prior year.

Tax preparation and related fees increased $129.4 million, or 8.1%. This increase is primarily due to an 8.1% increase in the average fee per U.S. client served, resulting from increases in our pricing and the complexity of returns prepared.

Table of Contents

Online service revenues increased $4.6 million, or 10.2%, primarily as a result of a shift in the mix of services to those with higher prices. Increased competition in the online market, including national marketing campaigns and lower pricing by our competitors, coupled with a 46% increase in returns prepared through the FFA, limited our growth in online paid clients.

Other service revenues increased $16.0 million, or 12.6%, primarily as a result of additional revenues associated with RACs and Express IRAs.

Royalty revenues increased $12.7 million, or 6.9%, primarily due to a 6.3% increase in the average fee per client served at our franchise offices.

Revenues earned during the current year in connection with RAL participations increased $14.4 million, or 8.6%, over the prior year. This increase is primarily due to an increase in the dollar amount of loans in which we purchased participation interests, resulting from an increase in the fee charged by the lender, an increase in our clients average refund size and the maximum loan amount allowed by the lender.

A total of 3.3 million software units were sold during fiscal year 2005, a decrease of 13.5% compared to the prior year. Software units include TaxCut Federal, TaxCut State, DeductionPro, WillPower and Legal Advisor. The decline in unit sales was due to increased competition, but was offset by pricing increases and a shift to our premium product lines, which resulted in a 1.4% increase in revenues from software sales.

Cost of services for fiscal year 2005 increased $110.7 million, or 9.7%, over the prior year. Compensation and benefits increased $54.6 million primarily due to increased revenues and an increase in the number of tax professionals and support staff needed in new office locations. Stock-based compensation related to our seasonal associates also increased $4.1 million. Occupancy expenses increased $26.3 million, or 10.3%, as a result of an 11.4% increase in U.S. company-owned offices under lease, which also drove increases in depreciation and amortization and supply costs. Of the total increase in occupancy expenses, $10.7 million was due to our real estate expansion. Other cost of services increased $11.4 million primarily due to additional expenses associated with our POM guarantee and Express IRAs.

Selling, general and administrative expenses increased $35.5 million over the prior year primarily due to increased spending related to an $18.8 million increase in allocations from support departments and additional legal expenses of $10.2 million.

Pretax income of $663.5 million for fiscal year 2005 represents a 3.9% increase from the prior year. The segment s operating margin declined 100 basis points to 28.1% in fiscal year 2005.

FISCAL 2006 OUTLOOK >>> In fiscal year 2006, we plan to continue our office expansion initiative by adding between 500 and 700 more offices across our company-owned and franchise network. We believe by investing in our office network, we will attract potential clients who are primarily motivated by convenience. Although we expect the additional tax offices to result in incremental clients and revenues during fiscal year 2006, due to the cost of expansion we expect incremental pretax losses from these newly added offices. We expect the performance of offices added during fiscal year 2005 to improve in the upcoming year.

We also plan to be more aggressive in our digital tax solutions marketing efforts to better compete in the market. We believe our multi-channel strategy not only allows clients to choose how they want to be served, but also allows us to appeal to a different client base than we do through our offices.

We expect overall revenue growth in this segment to be less than ten percent in the upcoming year, and we will continue to focus on cost containment to improve the segment s operating margin.

FISCAL 2004 COMPARED TO FISCAL 2003 >>> Tax Services revenues increased $244.4 million, or 12.6%, for fiscal year 2004.

Tax preparation and related fees increased $151.6 million, or 10.5%, compared to fiscal year 2003. This increase is due to a 6.7% increase in the average fee per client served in U.S. offices, coupled with a 5.2% increase in clients served. The average fee per client served increased due to increases in our pricing and the complexity of returns prepared. Clients served in company-owned offices increased to 10.6 million as a result of the acquisition of businesses in former major franchise territories. Excluding the impact of our acquisitions of former major franchises, clients served declined 2.5%.

Online tax preparation revenues increased $19.0 million, or 73.5%, as a result of an increase in the average price and an increase in clients served.

Other service revenues for fiscal year 2004 increased $29.8 million, or 30.5%, primarily due to a change in accounting principle relating to our POM guarantee.

The average fee per client at our franchise offices increased 8.4%, while clients served declined 15.9%. The decline is due to the former major franchise territories being operated as company-owned for the majority of fiscal year 2004. This, coupled with the re-franchising of certain former major franchise territories at higher royalty rates, resulted in a 5.9% increase in royalty revenue.

Table of Contents

Revenues earned during fiscal year 2004 in connection with RAL participations totaled $168.4 million. These revenues are approximately $30.1 million higher than waiver fees earned during fiscal year 2003. See discussion of the waiver below. Our RAL participation revenues benefited from the new company-owned operations in former major franchise territories. We participate in RALs at a rate of nearly 50% for company-owned offices compared to 25% in major franchise offices. This increased participation rate caused our revenues to increase, although the number of RALs declined.

During fiscal year 2003, we entered into an agreement with Household, whereby we waived our right to purchase any participation interests in and receive license fees for RALs during the period January 1 through April 30, 2003. In consideration for waiving these rights we received a series of payments from Household in fiscal year 2003, subject to certain adjustments in fiscal year 2004 based on delinquency rates. See discussion in Item 1, RAL Participations and 2003 Tax Season Waiver.

A total of 3.8 million software units were sold during fiscal year 2004, an increase of 11.2% compared to 3.4 million units in 2003. Revenues from software sales in fiscal year 2004 increased 11.5% as a result of the higher sales volume.

Cost of services for fiscal year 2004 increased $78.2 million, or 7.4%, from 2003. This increase was partially attributable to the operation of former major franchise territories as company-owned. Compensation and benefits increased $80.5 million as a result of the former major franchise acquisitions, increased field wages during the later part of the tax season and $13.7 million in expenses for stock options awarded to seasonal tax associates. Occupancy and equipment costs increased $30.5 million due primarily to a 5.7% increase in the average rent and a 3.4% increase in the number of U.S. offices under lease. Depreciation and amortization increased as a result of additional equipment purchased for new office locations opened during the period.

Selling, general and administrative expenses increased $77.3 million over 2003 due to $33.3 million in bad debt expense associated with RAL participations, which was not incurred in the prior year due to the waiver agreement. Intangible amortization increased $9.0 million from the acquisition of assets of former major franchisees. Marketing costs increased $20.7 million as a result of additional brand advertising campaigns. Allocated information technology costs increased $13.9 million as a result of additional technology projects. These increases were partially offset by a $62.4 million decrease in legal expenses, which is primarily a result of the Texas RAL litigation settlement and other cases in the prior year. See discussion in RAL Litigation below.

Pretax income for fiscal year 2004 increased $81.8 million, or 14.7%, over 2003. The segment s operating margin improved fifty basis points to 29.1% in fiscal year 2004. Excluding the 2003 RAL litigation reserve, pretax income increased 6.7% and our operating margin declined 160 basis points.

RAL LITIGATION >>> In fiscal year 2003, we announced a settlement had been reached in the cases *Ronnie and Nancy Haese, et al. v. H&R Block, Inc., et al.*, Case No. CV96-4213, District Court of Kleberg County, Texas (Haese I) and *Ronnie and Nancy Haese, et al. v. H&R Block, Inc., et al*., Case No. CV-99-314-D, District Court of Kleberg County, Texas (Haese II), filed originally as one action on July 30, 1996. As a result of that settlement, we recorded a liability and pretax expense of $43.5 million during fiscal year 2003. This represented our best estimate of our share of the settlement, plaintiff class legal fees and expenses, tax products and associated mailing expenses. Our share of the settlement is less than the total amount awarded due to amounts recoverable from a co-defendant in the case.

We have been named as a defendant in a number of lawsuits alleging that we engaged in wrongdoing with respect to the RAL program. We believe we have strong defenses to the various RAL Cases and will vigorously defend our position. Nevertheless, the amounts claimed by the plaintiffs are, in some instances, very substantial, and there can be no assurances as to the ultimate outcome of the pending RAL Cases, or as to the impact of the RAL Cases on our financial statements. See Item 3, Legal Proceedings, for additional information.

Table of Contents

MORTGAGE SERVICES

This segment is primarily engaged in the origination of non-prime mortgage loans through an independent broker network, the origination of non-prime and prime mortgage loans through a retail office network, the sale and securitization of mortgage loans and residual interests, and the servicing of non-prime loans.

Mortgage Services Operating Statistics			(dollars in 000s)
Year Ended April 30,	**2005**	2004	2003
VOLUME OF LOANS ORIGINATED >>>			
Wholesale (non-prime)	**$ 26,977,810**	$ 20,150,992	$ 13,659,243
Retail:			
Non-prime	**3,005,168**	1,846,674	1,220,563
Prime	**1,018,746**	1,258,347	1,697,815
	$ 31,001,724	$ 23,256,013	$ 16,577,621
LOAN CHARACTERISTICS >>>			
Weighted average FICO score [1]	**614**	608	604
Weighted average interest rate for borrowers (WAC[1])	**7.36%**	7.39%	8.15%
Weighted average loan-to-value [1]	**78.9%**	78.1%	78.7%
Percentage of first mortgage loans owner-occupied	**92.6%**	92.9%	93.0%
Percentage with prepayment penalty	**70.8%**	73.7%	79.9%
Percentage of fixed-rate mortgages	**22.1%**	30.4%	24.4%
Percentage of adjustable- rate mortgages	**77.9%**	69.6%	75.6%
ORIGINATION MARGIN (% OF ORIGINATION VOLUME) [2] >>>			
Loan sale premium	**2.77%**	4.21%	4.87%
Accretion on beneficial interest in Trusts	**0.63%**	0.72%	0.65%
Gain (loss) on derivatives	**0.15%**	(0.05%)	(0.02%)
Loan sale repurchase reserves	**(0.13%)**	(0.20%)	(0.13%)
MSR gain on sale	**0.44%**	0.36%	0.36%
	3.86%	5.04%	5.73%
Cost of acquisition	**(0.54%)**	(0.50%)	(0.36%)
Direct origination expenses	**(0.68%)**	(0.65%)	(0.62%)
Net gain on sale gross margin[3]	**2.64%**	3.89%	4.75%
Other revenues	**0.03%**	0.01%	(0.01%)
Other cost of origination	**(1.55%)**	(1.68%)	(1.91%)
Net margin	**1.12%**	2.22%	2.83%
Total cost of origination	**2.23%**	2.33%	2.53%
Total cost of origination and acquisition	**2.77%**	2.83%	2.89%
LOAN DELIVERY >>>			
Loan sales	**$ 30,975,523**	$ 23,234,935	$ 17,225,774
Execution price: [4] Loans originated and sold	**3.01%**	4.09%	4.63%
Loans acquired and sold			.18%

	3.01%	4.09%	4.46%

Mortgage Services Financial Results (in 000s)

Year Ended April 30,	**2005**	Restated 2004	Restated 2003
Components of gains on sales:			
Gain on mortgage loans	**$ 772,061**	$ 915,628	$ 792,072
Gain (loss) on derivatives	**46,853**	(11,957)	(4,141)
Gain on sales of residual interests	**15,396**	40,689	93,307
Impairment of residual interests	**(12,235)**	(26,063)	(54,111)
	822,075	918,297	827,127
Interest income:			
Accretion-residual interests	**137,610**	186,466	146,343
Other	**11,850**	5,064	5,421
	149,460	191,530	151,764
Loan-servicing revenue	**273,056**	211,710	168,351
Other	**1,427**	2,172	2,838
Total revenues	**1,246,018**	1,323,709	1,150,080
Cost of services	**221,300**	193,018	141,419
Cost of non-service revenues:			
Compensation and benefits	**218,544**	190,499	146,907
Occupancy	**33,155**	25,635	22,701
Other	**72,803**	71,634	74,332
	324,502	287,768	243,940
Selling, general and administrative	**204,123**	154,400	108,397
Total expenses	**749,925**	635,186	493,756
Pretax income	**$ 496,093**	$ 688,523	$ 656,324

(1) Represents non-prime production.

(2) As restated. See Reconciliation of Non-GAAP Financial Information at

the end of Item 7.

(3) Defined as gain on sale of mortgage loans (including gain or loss on derivatives, mortgage servicing rights and net of direct origination and acquisition expenses) divided by origination volume.

(4) Defined as total premium received divided by total balance of loans delivered to third-party investors or securitization vehicles (excluding mortgage servicing rights and the effect of loan origination expenses).

Table of Contents

FISCAL 2005 COMPARED TO FISCAL 2004 >>> Mortgage Services revenues decreased $77.7 million, or 5.9%, compared to the prior year. Revenues decreased primarily as a result of a decline in gains on sales of mortgage loans.

The following table summarizes the key drivers of gains on sales of mortgage loans:

		(dollars in 000s)
Year Ended April 30,	**2005**	2004
Application process:		
Total number of applications	**335,203**	269,267
Number of sales associates [1]	**3,526**	2,812
Closing ratio [2]	**58.3%**	57.7%
Originations:		
Total number of originations	**195,392**	155,339
WAC	**7.36%**	7.39%
Average loan size (all loans)	**$ 159**	$ 150
Total originations	**$ 31,001,724**	$ 23,256,013
Non-prime origination ratio	**96.7%**	94.6%
Direct origination and acquisition expenses, net	**$ 378,674**	$ 278,785
Revenue (loan value):		
Net gain on sale gross margin	**2.64%**	3.89%

(1) Includes all direct sales and back office sales support associates.

(2) Percentage of loans funded divided by total applications in the period.

Although origination volumes increased 33.3% over the prior year, gains on sales of mortgage loans declined $143.6 million as a result of increased price competition and poorer execution in the secondary market. As a result, our net margin declined to 1.12% from 2.22% in the prior year.

The average market interest rate for a 2-year swap increased to 3.32% in fiscal year 2005 from 1.97% in 2004, while our WAC decreased to 7.36% from 7.39% for the same periods. Because our WAC did not increase as quickly as market rates, our gross margin declined 125 basis points from last year. To mitigate the risk of short-term changes in market interest rates, we use interest rate swaps, interest rate caps and forward loan sale commitments. During the current year, we recorded $46.9 million in net gains, compared to a net loss of $12.0 million in the prior year, related to derivative instruments. See Item 8, note 9 to the consolidated financial statements.

For the year ended April 30, 2004, we reclassified $167.7 million from interest income to gains on sales of mortgage assets, representing excess cash received from our beneficial interest in Trusts. The beneficial interest in Trusts is reported at fair value at each balance sheet date. Changes in fair value are included in current period earnings. The excess cash received and mark-to-market adjustment for each period have been classified as gain on sale of mortgage loans. This change had no impact on our net income as previously reported.

In fiscal year 2005, we completed a sale of residual interests and recorded a gain of $15.4 million. This sale accelerated cash flows from these residual interests, effectively realizing previously recorded unrealized gains included in other comprehensive income. We recorded a gain of $40.7 million in the prior year on similar transactions.

Impairments of residual interests in securitizations of $12.2 million were recognized during the year compared with $26.1 million in the prior year. The prior year impairments were due primarily to loan performance of older residuals and changes in assumptions to more closely align with the economic and interest rate environment.

Total accretion of residual interests decreased $48.9 million from the prior year. This decrease is primarily due to the sale of previously securitized residual interests during fiscal year 2004, which eliminated future accretion on those residual interests.

During fiscal year 2005, our residual interests continued to perform better than expected compared to internal valuation models. As a result of this performance, our residuals have produced, or are expected to produce, more cash proceeds than projected in previous valuation models. We recorded favorable pretax mark-to-market adjustments, which increased the fair value of our residual interests $154.3 million during the year. These adjustments were recorded, net of write-downs of $58.3 million and deferred taxes of $36.6 million, in other comprehensive income and will be accreted into income throughout the remaining life of the residual interests. Future changes in interest rates, actual loan pool performance or other assumptions could cause additional favorable or unfavorable adjustments to the fair value of the residual interests and could cause changes to the accretion of these residual interests in future periods. Additionally, sales of residual interests results in decreases to accretion income in future periods.

The following table summarizes the key drivers of loan-servicing revenues:

		(dollars in 000s)
Year Ended April 30,	**2005**	2004
Average servicing portfolio:		
With related MSRs	**$ 41,021,448**	$ 32,039,811
Without related MSRs	**13,838,769**	6,481,069
	$ 54,860,217	$ 38,520,880
Number of loans serviced	**435,290**	324,364
Average delinquency rate	**4.85%**	6.04%
Weighted average FICO score	**610**	596
Value of MSRs	**$ 166,614**	$ 113,821

Table of Contents

Loan-servicing revenues increased $61.3 million, or 29.0%, over the prior year. The increase reflects a higher average loan-servicing portfolio. The average servicing portfolio for fiscal year 2005 increased 42.4%.

Cost of services increased $28.3 million, or 14.7%, as a result of a higher average servicing portfolio, particularly loans with MSRs, which also resulted in an increase in MSR amortization.

Cost of non-service revenues increased $36.7 million, or 12.8%, over the prior year. Compensation and benefits increased $28.0 million as a result of a 25.4% increase in the number of employees, reflecting resources needed to support higher loan production volumes.

Selling, general and administrative expenses increased $49.7 million, or 32.2%, due to $12.1 million in increased retail marketing expenses and $7.4 million in additional consulting expenses.

Pretax income decreased $192.4 million, or 27.9%, for fiscal year 2005.

FISCAL 2006 OUTLOOK >>> We believe we can continue to grow our origination volumes in fiscal year 2006. Lowering our cost of origination will be a key priority for the upcoming year, and we have begun to implement new technologies to enhance the underwriting and origination processes.

Based on these assumptions, we expect loan origination growth to exceed 20% at net margins in the range of 0.90% to 1.15% in fiscal year 2006.

FISCAL 2004 COMPARED TO FISCAL 2003 >>> Mortgage Services revenues increased $173.6 million, or 15.1%, compared to fiscal year 2003. This increase was primarily a result of increased production volumes, higher servicing income and accretion.

Gains on sales of mortgage loans increased $123.6 million, or 15.6%, for the year ended April 30, 2004. The increase over the prior year is a result of a significant increase in loan origination volume, an increase in the average loan size and the closing ratio, partially offset by a decrease in our gross margin and increased loan sale repurchase reserves. During 2004, we originated $23.3 billion in mortgage loans compared to $16.6 billion in 2003, an increase of 40.3%. Our gross margin decreased primarily due to lower WACs. The loan sale repurchase reserves, which are netted against gains on sales, increased $25.5 million over 2003. This increase is primarily a result of an increase in loan sales coupled with the increase in whole loan sales compared to securitizations, for which higher reserves are provided at the time of sale for estimated repurchases. As previously discussed, we reclassified $103.3 million from interest income to gains on sales for fiscal year 2003.

In November 2002, we completed the sale of previously securitized residual interests and recorded a gain of $93.3 million. Two smaller transactions were completed in fiscal year 2004, which resulted in gains of $40.7 million.

Impairments of residual interests in securitizations of $26.1 million were recognized during 2004 compared with $54.1 million in 2003. The impairments were due primarily to loan performance of older residuals and changes in assumptions to more closely align with the current economic and interest rate environment.

Total accretion of residual interests increased $40.1 million over 2003. This improvement is the result of write-ups in the related asset values in fiscal years 2003 and 2004. Increases in fair value are realized in income through accretion over the remaining expected life of the residual interest.

We recorded favorable pretax mark-to-market adjustments, which increased the fair value of our residual interests $199.7 million during 2004. These adjustments were recorded, net of write-downs of $32.6 million and deferred taxes of $63.8 million, in other comprehensive income.

Loan-servicing revenues increased $43.4 million, or 25.8%, in fiscal year 2004. The increase reflects a higher average loan-servicing portfolio, which was partially offset by the reduction of certain of our ancillary fees previously charged to borrowers. The average servicing portfolio for fiscal year 2004 increased 38.9%.

Cost of services increased $51.6 million, or 36.5%, as a result of a higher average servicing portfolio and the acceleration of amortization of certain MSRs.

Cost of non-service revenues increased $43.8 million, or 18.0%, over the prior year. Compensation and benefits increased $43.6 million as a result of a 22.9% increase in the number of employees, reflecting resources needed to support higher loan production volumes. Occupancy expenses increased due to nine additional branch offices opened since October 2002.

Selling, general and administrative expenses increased $46.0 million, primarily due to $10.4 million in increased marketing expenses for retail mortgage direct mail advertising, $13.5 million in increased allocated corporate and

shared costs and $7.2 million in increased consulting expenses. Allocated costs increased due to higher insurance costs and the expensing of stock-based compensation.

Pretax income increased $32.2 million, or 4.9%, for fiscal year 2004.

Table of Contents

BUSINESS SERVICES

This segment offers middle-market companies accounting, tax and consulting services, wealth management, retirement resources, payroll services, corporate finance and financial process outsourcing.

Business Services Operating Statistics

Year Ended April 30,	**2005**	2004	2003
ACCOUNTING, TAX AND CONSULTING >>>			
Chargeable hours (000s)	**2,898**	2,598	2,584
Chargeable hours per person	**1,430**	1,414	1,388
Net billed rate per hour	**$ 133**	$ 124	$ 120
Average margin per person	**$ 112,573**	$ 102,496	$ 97,117

Business Services Financial Results

(in 000s)

Year Ended April 30,	**2005**	Restated 2004	Restated 2003
Service revenues:			
Accounting, tax and consulting	**$ 412,473**	$ 353,750	$ 337,903
Capital markets	**67,922**	73,860	35,629
Payroll, benefits and retirement services	**27,331**	21,172	20,745
Other services	**31,170**	19,390	7,912
	538,896	468,172	402,189
Other	**34,420**	31,038	31,951
Total revenues	**573,316**	499,210	434,140
Cost of services:			
Compensation and benefits	**310,950**	256,640	233,303
Occupancy	**24,699**	20,498	20,873
Other	**36,672**	33,080	32,562
	372,321	310,218	286,738
Impairment of goodwill			13,459
Selling, general and administrative	**171,124**	169,680	149,976
Total expenses	**543,445**	479,898	450,173
Pretax income (loss)	**$ 29,871**	$ 19,312	$ (16,033)

FISCAL 2005 COMPARED TO FISCAL 2004 >>> Business Services revenues for fiscal year 2005 increased $74.1 million, or 14.8%, from the prior year. This increase was primarily due to a $58.7 million increase in accounting, tax and consulting revenues resulting from an 11.5% increase in chargeable hours and a 7.3% increase in the net billed rate per hour. The increase in chargeable hours is primarily due to strong demand for our tax and accounting services as well as our consulting and risk management services. This demand stems from the current business environment and the emphasis placed on the accounting industry.

Capital markets revenues declined $5.9 million as a result of an 11.2% decrease in the number of business valuation projects. Payroll, benefits and retirement services revenues increased as a result of three acquisitions completed during the last half of the current year.

Other service revenues increased $11.8 million due to the acquisition of our financial process outsourcing business in the second quarter of last year, coupled with overall growth in this business. Increases in reimbursable expenses and contractor revenues also contributed to higher revenues.

Cost of services increased $62.1 million, or 20.0%, for fiscal year 2005 compared to the prior year. Compensation and benefits related to our services increased $54.3 million, primarily as a result of increases in the number of personnel and the average wage per employee. The increase in the average wage is being driven by marketplace competition for professional staff. Higher expenses are also attributable to investments we are making in early-stage businesses within this segment.

Pretax income for the year ended April 30, 2005 was $29.9 million compared to $19.3 million in fiscal year 2004.

FISCAL 2006 OUTLOOK >>> Our focus for fiscal year 2006 is growing the business within our current markets by expanding our services to existing clients. We will continue to support our national business development strategy and we expect the demand for risk management services and financial process outsourcing to continue. We also believe the demand and competition for qualified professional staff will continue.

We expect this segment s pretax income for fiscal year 2006 to increase by approximately 30%.

FISCAL 2004 COMPARED TO FISCAL 2003 >>> Business Services revenues for fiscal year 2004 improved $65.1 million, or 15.0%, over the prior year. This increase was primarily due to a $38.2 million increase in capital markets revenue resulting from a 38.3% increase in the number of business valuation projects. Revenues in accounting, tax and consulting increased $15.8 million over the prior year as a result of newly acquired tax businesses and increased productivity. The acquisition of Tax Services former major franchises allowed us to acquire certain tax businesses associated with the original M&P acquisition. We were previously unable to acquire and operate these businesses in direct competition with major franchise territories. The acquired tax businesses contributed $13.0 million in revenues in 2004. The remainder of the increase was driven primarily by a 3.3% increase in the net billed rate per hour.

Table of Contents

Cost of services increased $23.5 million, or 8.2%, over the prior year. Compensation and benefits increased $23.3 million, primarily as a result of increased activity in the capital markets business and increased costs in our accounting, tax and consulting business. A goodwill impairment charge of $13.5 million was recorded in the prior year. No such impairment was recorded in fiscal year 2004.

Pretax income for the year ended April 30, 2004 was $19.3 million compared to a loss of $16.0 million in fiscal year 2003.

INVESTMENT SERVICES

This segment is primarily engaged in offering advice-based investment services. Our integration of investment advice and new service offerings has allowed us to shift our focus from a transaction-based client relationship to a more advice-based focus.

Investment Services Operating Statistics

Year Ended April 30,	**2005**	2004	2003
Customer trades [1]	**885,796**	1,004,235	860,784
Customer daily average trades	**3,529**	3,923	3,429
Average revenue per trade [2]	**$ 123.33**	$ 119.36	$ 120.15
Customer accounts: [3]			
Traditional brokerage	**431,749**	463,736	501,001
Express IRAs	**380,539**	366,040	216,351
	812,288	829,776	717,352
Ending balance of assets under administration (billions)	**$ 27.8**	$ 26.7	$ 22.3
Average assets per traditional brokerage account	**$ 63,755**	$ 57,204	$ 43,991
Average margin balances (millions)	**$ 597**	$ 545	$ 577
Average customer payables balances (millions)	**$ 975**	$ 984	$ 819
Number of advisors	**1,010**	1,009	984
Included in the numbers above are the following relating to fee-based accounts:			
Customer accounts	**7,668**	6,964	4,680
Average revenue per account	**$ 2,301**	$ 1,572	$ 1,442
Assets under administration (millions)	**$ 1,975**	$ 1,494	$ 789
Average assets per active account	**$ 260,238**	$ 214,537	$ 168,522

(1) Includes only trades on which revenues are earned (revenue trades). Revenues are earned on both transactional and annuitized trades.

(2) Calculated as total trade

revenues divided by revenue trades.

(3) Includes only accounts with a positive balance.

Investment Services Financial Results (in 000s)

Year Ended April 30,	**2005**	Restated 2004	Restated 2003
Service revenues:			
Transactional revenue	**$ 88,516**	$ 99,559	$ 91,587
Annuitized revenue	**77,386**	60,950	38,507
Production revenue	**165,902**	160,509	130,094
Other service revenue	**29,206**	35,619	34,311
	195,108	196,128	164,405
Margin interest revenue	**43,698**	33,408	37,300
Less: interest expense	**(3,114)**	(1,358)	(4,830)
Net interest revenue	**40,584**	32,050	32,470
Other	**438**	(66)	(911)
Total revenues (1)	**236,130**	228,112	195,964
Cost of services:			
Compensation and benefits	**116,552**	108,956	89,473
Occupancy	**22,178**	21,571	24,299
Other	**19,555**	24,091	25,604
	158,285	154,618	139,376
Impairment of goodwill			108,792
Selling, general and administrative	**153,215**	149,108	167,217
Total expenses	**311,500**	303,726	415,385
Pretax loss	**$ (75,370)**	$ (75,614)	$ (219,421)

(1) Total revenues, less interest expense

FISCAL 2005 COMPARED TO FISCAL 2004 >>> Investment Services revenues, net of interest expense, for fiscal year 2005 increased $8.0 million, or 3.5%. The increase is primarily due to higher margin interest revenue.

Production revenue increased $5.4 million, or 3.4% over the prior year. Transactional revenue, which is based on individual securities transactions, decreased $11.0 million, or 11.1%, from the prior year due primarily to an 18.7% decline in transactional trading volume. This decline was partially offset by an increase in the average revenue per trade. Annuitized revenue, which consists of sales of mutual funds, insurance, fee-based products and unit investment trusts, increased $16.4 million, or 27.0%, due to increased sales of annuities, mutual funds and our fee-based wealth management accounts. Annuitized revenues represent 46.6% of total production revenues for fiscal year

Table of Contents

2005, compared to 38.0% in the prior year. Advisor productivity averaged approximately $166,000 in the current year, essentially flat compared to the prior year.

Other service revenue declined $6.4 million, or 18.0%, from the prior year due to fewer fixed income underwriting offerings and Express IRA revenues now being recorded as part of Tax Services.

Margin interest revenue increased $10.3 million, or 30.8%, from the prior year, which is primarily a result of higher interest rates earned, coupled with a 9.5% increase in average margin balances. Margin balances have increased from an average of $545.0 million in fiscal year 2004 to $597.0 million in the current year.

Cost of services increased $3.7 million, or 2.4%, primarily due to $7.6 million of additional compensation and benefits resulting from a higher average commission rate than the prior year and other financial incentives for attracting new advisors. This increase was partially offset by declines in depreciation and other expenses.

Selling, general and administrative expenses increased $4.1 million, or 2.8%, over the prior year primarily as the result of $6.8 million in additional legal expenses, partially offset by gains of $4.6 million on the disposition of certain assets.

The pretax loss for Investment Services for fiscal year 2005 was $75.4 million compared to a loss of $75.6 million last year.

FISCAL 2006 OUTLOOK >>> We believe the key to this segment s profitability in the near-term is aligning the segment s cost structure with its revenue. Our focus in the upcoming fiscal year will be on reducing costs and attracting productive advisors. In the fourth quarter of fiscal year 2005, we implemented a series of actions, which are not production dependent, to reduce costs and enhance performance. We have also implemented strict advisor production standards.

Although we still expect to report an operating loss for fiscal year 2006, we anticipate that loss will be approximately $25 to $35 million less than the loss recorded in 2005.

FISCAL 2004 COMPARED TO FISCAL 2003 >>> Investment Services revenues, net of interest expense, for fiscal year 2004 increased $32.1 million, or 16.4%, over fiscal year 2003. The improvement is primarily due to the increase in annuitized revenues.

Production revenue increased $30.4 million, or 23.4% over fiscal year 2003. Transactional revenue increased $8.0 million, or 8.7%, from 2003 due to an increase in transactional trading activity, partially offset by a slight decline in average revenue per trade. Annuitized revenues increased $22.4 million, or 58.3%, due to increased sales of annuities and mutual funds and an increase in advisor productivity. Productivity averaged approximately $166,000 per advisor in fiscal year 2004 compared to $122,000 in 2003.

Margin interest revenue declined $3.9 million, or 10.4%, from 2003 primarily as a result of a 5.5% decline in average margin balances coupled with lower interest rates. Margin balances declined from an average of $577.0 million in fiscal year 2003 to $545.0 million in 2004. Accordingly, interest expense for fiscal year 2004 declined $3.5 million, or 71.9%, from fiscal year 2003.

Cost of services increased $15.2 million over 2003 primarily due to a $19.5 million increase in compensation and benefits, resulting from an increase in customer trading and higher average commissions.

A goodwill impairment charge of $108.8 million was recorded in fiscal year 2003 due to unsettled market conditions. This charge includes an additional impairment of $84.8 million as a result of the restatement of previously issued financial statements.

Selling, general and administrative expenses decreased $18.1 million primarily as a result of a reduction in consulting and legal expenses.

The pretax loss for Investment Services for fiscal year 2004 was $75.6 million compared to a loss of $219.4 million in 2003.

Table of Contents

CORPORATE

This segment consists primarily of corporate support departments, which provide services to our operating segments. These support departments consist of marketing, information technology, facilities, human resources, executive, legal, finance, government relations and corporate communications. Support department costs are generally allocated to our operating segments. Our captive insurance and franchise financing subsidiaries are also included within this segment, as was our small business initiatives subsidiary in fiscal years 2004 and 2003.

Corporate Financial Results

			(in 000s)
		Restated	Restated
Year Ended April 30,	**2005**	2004	2003
Operating revenues	**$ 13,592**	$ 12,532	$ 6,448
Eliminations	**(10,444)**	(8,218)	(7,099)
Total revenues	**3,148**	4,314	(651)
Corporate expenses:			
Interest expense	**72,701**	69,300	74,482
Other	**51,262**	50,476	56,008
	123,963	119,776	130,490
Support departments:			
Marketing	**117,303**	110,507	88,819
Information technology	**107,306**	110,569	92,899
Finance	**34,498**	33,829	30,232
Other	**107,562**	78,593	65,734
	366,669	333,498	277,684
Allocation of support departments	**(366,742)**	(336,639)	(280,677)
Other income, net	**24,345**	4,582	6,139
Pretax loss	**$ (96,397)**	$ (107,739)	$ (122,009)

FISCAL 2005 COMPARED TO FISCAL 2004 >>> Corporate expenses increased $4.2 million primarily due to higher interest expense, resulting from higher interest rates and higher average debt balances.

Marketing department expenses increased $6.8 million, or 6.1%, primarily due to additional marketing efforts in the current year. Other support department expenses increased $29.0 million, primarily due to $15.1 million of additional stock-based compensation expenses, increases in the cost of employee insurance and supplies.

Other income increased $19.8 million primarily as a result of $17.3 million in legal recoveries.

The pretax loss was $96.4 million, compared with last year s loss of $107.7 million.

Our effective income tax rate for fiscal year 2005 decreased to 38.7% compared to 39.8% in fiscal year 2004. The decrease is due to tax benefits realized on net operating loss carryforwards and their related benefits and changes in reserves for uncertain tax positions.

FISCAL 2004 COMPARED TO FISCAL 2003 >>> Corporate revenues increased $5.0 million primarily as a result of operating capital gains of $1.0 million in 2004 compared to a $2.0 million write-off of investments at our captive

insurance subsidiary and improved results from our small business subsidiary.

Corporate expenses declined $10.7 million, or 8.2%, due primarily to lower interest expense. Interest expense declined as a result of lower financing costs and a scheduled debt payment of $45.1 million in August 2003.

Marketing department expenses increased $21.7 million, or 24.4%, primarily as a result of marketing initiatives for Tax Services directed toward our brand repositioning and raising consumer awareness of our advice offerings. Information technology department expenses increased $17.7 million, or 19.0%, primarily due to additional resources needed to support additional projects on behalf of the operating segments and other support departments.

The pretax loss was $107.7 million, compared with a loss of $122.0 million in fiscal year 2003.

Our effective income tax rate for fiscal year 2004 decreased to 39.8% compared to 44.2% in fiscal year 2003, primarily as a result of non-deductible goodwill impairment charges recorded in the prior year.

Table of Contents

FINANCIAL CONDITION >>>

CAPITAL RESOURCES & LIQUIDITY BY SEGMENT

Our sources of capital include cash from operations, issuances of common stock and debt. We use capital primarily to fund working capital requirements, pay dividends, repurchase shares of our common stock and acquire businesses.

CASH FROM OPERATIONS >>> Operating cash flows totaled $513.8 million, $852.5 million and $689.7 million in fiscal years 2005, 2004 and 2003, respectively. Operating cash flows in fiscal year 2005 decreased from fiscal year 2004 due to decreased cash flows from both Mortgage Services and Tax Services and increased income tax payments. Tax Services and Mortgage Services contributed $523.4 million and $89.7 million, respectively, to cash from operations in the current year. Income tax payments totaled $437.4 million this year, compared to $331.6 million in fiscal year 2004.

ISSUANCES OF COMMON STOCK >>> We issue shares of our common stock in accordance with our stock-based compensation plans out of our treasury shares. Proceeds from the issuance of common stock totaled $136.1 million, $120.0 million and $126.3 million in fiscal years 2005, 2004 and 2003, respectively.

DEBT >>> In August 2004 we filed an additional shelf registration statement with the SEC for up to $1.0 billion in debt securities. On October 26, 2004, we issued $400.0 million of 5.125% Senior Notes under our shelf registration statements. The proceeds from the notes were used to repay our $250.0 million in 6^{3}/4% Senior Notes, which were due on November 1, 2004. The remaining proceeds were used for working capital, capital expenditures, repayment of other debt and other general corporate purposes.

DIVIDENDS >>> We have consistently paid quarterly dividends. Dividends paid totaled $143.0 million, $138.4 million and $125.9 million in fiscal years 2005, 2004 and 2003, respectively.

SHARE REPURCHASES >>> On June 9, 2004, our Board of Directors approved an authorization to repurchase an additional 15 million shares. This authorization is in addition to the authorization of 20 million shares on June 11, 2003. During fiscal year 2005, we repurchased 11.2 million shares (pre-split) pursuant to these authorizations at an aggregate price of $527.5 million or an average price of $46.98 per share. There were 15.0 million shares remaining under the 2004 authorization and 0.1 million shares remaining under the 2003 authorization at the end of fiscal year 2005.

We plan to continue to purchase shares on the open market in accordance with the existing authorizations, subject to various factors including the price of the stock, the availability of excess cash, our ability to maintain liquidity and financial flexibility, securities laws restrictions, targeted capital levels and other investment opportunities available.

ACQUISITIONS >>> From time to time we acquire businesses that are viewed to be a good strategic fit to our organization. Total cash paid for acquisitions was $37.6 million, $280.9 million and $26.4 million during fiscal years 2005, 2004 and 2003, respectively. Significant acquisitions during fiscal year 2004 were the former major franchise territories we now operate as company-owned. Cash paid in fiscal year 2004 related to the acquisition of these territories totaled $243.2 million.

RESTRICTED CASH >>> We hold certain cash balances that are restricted as to use. Cash and cash equivalents restricted totaled $516.9 million at fiscal year end. Investment Services held $465.0 million of this total segregated in a special reserve account for the exclusive benefit of customers pursuant to Rule 15c3-3 of the Securities Exchange Act of 1934. Restricted cash of $28.1 million at April 30, 2005 held by Business Services is related to funds held to pay payroll taxes on behalf of its customers. Restricted cash held by Mortgage Services totaled $23.8 million at April 30, 2005 for outstanding commitments to fund mortgage loans.

FISCAL YEAR 2006 OUTLOOK >>> We began construction on a new world headquarters facility during fiscal year 2005. Estimated construction costs during fiscal year 2006 of $103.5 million will be financed from operating cash flows.

Our Board of Directors approved an increase of the quarterly cash dividend from 11 cents to 12.5 cents per share, a 13.6% increase, effective with the quarterly dividend payment on October 3, 2005 to shareholders of record on September 12, 2005.

Table of Contents

A condensed consolidating statement of cash flows by segment for the fiscal year ended April 30, 2005 follows. Generally, interest is not charged on intercompany activities between segments. Detailed consolidated statements of cash flows are located in Item 8.

Restated	Tax Services	Mortgage Services	Business Services	Investment Services	Corporate	(in 000s) Consolidated H&R Block
FISCAL YEAR 2005 >>>						
Cash provided by (used in):						
Operations	**$ 523,355**	**$ 89,689**	**$ 44,268**	**$ (31,537)**	**$ (111,982)**	**$ 513,793**
Investing	**(83,534)**	**99,906**	**(37,816)**	**7,618**	**(44,584)**	**(58,410)**
Financing	**3,482**	**(15,126)**	**(23,223)**	**(1,686)**	**(391,362)**	**(427,915)**
Net intercompany	**(443,277)**	**(175,542)**	**14,114**	**19,094**	**585,611**	

Net intercompany activities are excluded from investing and financing activities within the segment cash flows. We believe that by excluding intercompany activities, the cash flows by segment more clearly depicts the cash generated and used by each segment. Had intercompany activities been included, those segments in a net lending situation would have been included in investing activities, and those in a net borrowing situation would have been included in financing activities.

TAX SERVICES >>> Tax Services has historically been our largest provider of annual operating cash flows. The seasonal nature of Tax Services generally results in a large positive operating cash flow in the fourth quarter. Tax Services generated $523.4 million in operating cash flows primarily related to net income, as cash is generally collected from clients at the time services are rendered. Prior year cash requirements for investing activities included $243.2 million paid to acquire former major franchisees.

HSBC and its designated bank provide funding of all RALs offered pursuant to a contract that expires in June 2006. If HSBC and its designated bank do not continue to provide funding for RALs, we could seek other RAL lenders to continue offering RALs to our clients or consider alternative funding strategies. We believe that a number of suitable lenders would be available to replace HSBC should the need arise.

We also believe that the RAL program is productive for the Company and a useful service for our customers. The RAL program is regularly reviewed both from a business perspective and to ensure compliance with applicable state and federal laws. It is our intention to continue to offer the RAL program in the foreseeable future.

Loss of the RAL program could adversely affect our operating results. In addition to the loss of revenues and income directly attributable to the RAL program, the inability to offer RALs could indirectly result in the loss of retail tax clients and associated tax preparation revenues, unless we were able to take mitigating actions. Total revenues related to the RAL program (including revenues from participation interests) were $182.6 million for the year ended April 30, 2005, representing 4.1% of consolidated revenues and contributed $101.3 million to the segment s pretax results. Revenues related to the RAL program totaled $174.2 million for the year ended April 30, 2004, representing 4.1% of consolidated revenues.

Our international operations are generally self-funded. Cash balances are held in Canada, Australia and the United Kingdom independently in local currencies. H&R Block Canada, Inc. (Block Canada) has a commercial paper program for up to $125.0 million (Canadian). At April 30, 2005, there was no commercial paper outstanding. The peak borrowing during fiscal year 2005 was $124.0 million (Canadian).

MORTGAGE SERVICES >>> This segment primarily generates cash as a result of the sale and securitization of mortgage loans and residual interests and as its residual interests mature. Mortgage Services provided $89.7 million in cash from operating activities primarily due to the sale of mortgage loans. This segment also generated $99.9 million in cash from investing activities primarily related to cash received from the maturity and sales of residual interests.

We regularly sell loans as a source of liquidity. Loan sales in fiscal year 2005 were $31.0 billion compared with $23.2 billion in fiscal year 2004. Additionally, Block Financial Corporation (BFC) provides a line of credit of at least $150 million for working capital needs. At the end of fiscal year 2005 there was no outstanding balance on this facility.

GAINS ON SALES. Gains on sales of mortgage assets totaled $822.1 million, which was primarily recorded as operating activities. The percentage of cash proceeds we receive from our capital market transactions is calculated as follows:

Table of Contents

Year Ended April 30,	2005	Restated 2004	(in 000s) Restated 2003
Cash proceeds:			
Whole loans sold by the Trusts	**$ 737,417**	$ 741,233	$ 368,305
Residual cash flows from Beneficial interest in Trusts	**193,639**	167,705	103,294
Loans securitized	**69,665**	198,226	389,449
Sale of previously securitized residuals	**15,396**	40,689	93,307
Gain (loss) on derivative instruments	**45,298**	(2,578)	(2,056)
	1,061,415	1,145,275	952,299
Non-cash:			
Retained mortgage servicing rights	**137,510**	84,274	60,078
Additions (reductions) to balance sheet [1]	**15,885**	11,490	(10,829)
	153,395	95,764	49,249
Portion of gain on sale from capital market transactions	**$ 1,214,810**	$ 1,241,039	$ 1,001,548
Other items included in gain on sale:			
Changes in beneficial interest in Trusts	**36,281**	37,918	74,987
Impairments to fair value of residual interests	**(12,235)**	(26,063)	(54,111)
Net change in fair value of derivative instruments	**1,555**	(9,379)	(2,085)
Direct origination and acquisition expenses, net	**(378,674)**	(278,785)	(182,216)
Loan sale repurchase reserves	**(39,662)**	(46,820)	(21,295)
Other		387	10,299
	(392,735)	(322,742)	(174,421)
Reported gains on sales of mortgage assets	**$ 822,075**	$ 918,297	$ 827,127
% of gain on sale from capital market transactions received as cash [2]	**87%**	92%	95%

(1) Includes residual interests and interest rate caps.

(2) Cash proceeds divided by portion of gain on sale related to capital market

transactions.

WAREHOUSE FUNDING. To finance our prime originations, we use a warehouse facility with capacity up to $25 million. This annual facility bears interest at one-month LIBOR plus 140 to 200 basis points. As of April 30, 2005 and 2004, the balance outstanding under this facility was $4.4 million and $4.0 million, respectively, and is included in accounts payable, accrued expenses and other on the consolidated balance sheets.

See discussion of our non-prime warehouse facilities below in Off-Balance Sheet Financing Arrangements.

We believe the sources of liquidity available to the Mortgage Services segment are sufficient for its needs. Risks to the stability of these sources include, but are not limited to, adverse changes in the perception of the non-prime industry, adverse changes in the regulation of non-prime lending, changes in the rating criteria of non-prime lending by third-party rating agencies and, to a lesser degree, reduction in the availability of third parties that provide credit enhancement. Past performance of the securitizations will also impact the segment s future participation in these markets. The off-balance sheet warehouse facilities used by the Trusts are subject to annual renewal, each at a different time during the year, and any of the above events could lead to difficulty in renewing the lines. These risks are mitigated by a staggering of the renewal dates related to these warehouse lines and through the use of multiple lending institutions to secure these lines.

BUSINESS SERVICES >>> Business Services funding requirements are largely related to receivables for completed work and work in process. We provide funding sufficient to cover their working capital needs. Business Services also has future obligations and commitments, which are summarized in the tables below under Contractual Obligations and Commercial Commitments.

This segment generated $44.3 million in operating cash flows primarily related to net income. Additionally, Business Services used $37.8 million in investing activities primarily related to contingent payments on prior acquisitions, and $23.2 million in financing activities as a result of payments on acquisition debt.

INVESTMENT SERVICES >>> Investment Services, through HRBFA, is subject to regulatory requirements intended to ensure the general financial soundness and liquidity of broker-dealers.

HRBFA is required to maintain minimum net capital as defined under Rule 15c3-1 of the Securities Exchange Act of 1934 and complies with the alternative capital requirement, which requires a broker-dealer to maintain net capital equal to the greater of $250,000 or 2% of the combined aggregate debit balances arising from customer transactions. The net capital rule also provides that equity capital may not be withdrawn or cash dividends paid if resulting net capital would be less than the greater of 5% of combined aggregate debit items or 120% of the minimum required net capital. At the end of fiscal year 2005, HRBFA s net capital of $121.2 million, which was 19.2% of aggregate debit items, exceeded its minimum required net capital of $12.6 million by $108.6 million. During fiscal year 2005 and 2004, we contributed additional capital of $27.0 million and $32.0 million, respectively, even though HRBFA

Table of Contents

was in excess of the minimum net capital requirement, and we may continue to do so in the future.

In fiscal year 2005, Investment Services used $31.5 million in its operating activities primarily due to operating losses.

To manage short-term liquidity, BFC provides HRBFA a $300 million unsecured credit facility. At the end of fiscal year 2005 there was no outstanding balance on this facility.

HRBFA has letters of credit with a financial institution with a credit limit of $125.0 million. There were no commitments outstanding on these letters of credit at any time during fiscal year 2005 or 2004.

Liquidity needs relating to client trading and margin-borrowing activities are met primarily through cash balances in client brokerage accounts and working capital. We believe these sources of funds will continue to be the primary sources of liquidity for Investment Services. Stock loans have historically been used as a secondary source of funding and could be used in the future, if warranted.

Securities borrowed and securities loaned transactions are generally reported as collateralized financings. These transactions require us to deposit cash and/or collateral with the lender. Securities loaned consist of securities owned by customers, which were purchased on margin. When loaning securities, we receive cash collateral approximately equal to the value of the securities loaned. The amount of cash collateral is adjusted, as required, for market fluctuations in the value of the securities loaned. Interest rates paid on the cash collateral fluctuate as short-term interest rates change.

To satisfy the margin deposit requirement of client option transactions with the Options Clearing Corporation (OCC), Investment Services pledges customers margined securities. Pledged securities at the end of fiscal year 2005 totaled $44.6 million, an excess of $7.9 million over the margin requirement. Pledged securities at the end of fiscal year 2004 totaled $46.3 million, an excess of $7.9 million over the margin requirement.

We believe the funding sources for Investment Services are stable. Liquidity risk within this segment is primarily limited to maintaining sufficient capital levels to obtain securities lending liquidity to support margin borrowing by customers.

OFF-BALANCE SHEET FINANCING ARRANGEMENTS

We are party to various transactions with an off-balance sheet component, including loan commitments and QSPEs, or Trusts.

We have commitments to fund mortgage loans in our pipeline of $3.9 billion at April 30, 2005, which are subject to conditions and loan contract verification. There is no commitment on the part of the borrower to close on the mortgage loan at this stage of the lending process and external market forces impact the probability of these loan commitments being closed. Therefore, total commitments outstanding do not necessarily represent future cash requirements. If the loan commitments are exercised, they will be funded as described below.

Our relationships with the Trusts serve to reduce our capital investment in our non-prime mortgage operations. These arrangements are primarily used to sell mortgage loans, but a portion may also be used to sell servicing advances and finance residual interests. Additionally, these arrangements have freed up cash and short-term borrowing capacity, improved liquidity and flexibility, and reduced balance sheet risk, while providing stability and access to liquidity in the secondary market for mortgage loans.

Substantially all non-prime mortgage loans we originate are sold daily to the Trusts. The Trusts purchase the loans from us using five warehouse facilities, arranged by us, totaling $9.0 billion. These facilities are subject to various Option One performance triggers, limits and financial covenants, including tangible net worth and leverage ratios. In addition, these facilities contain cross-default features in which a default in one facility would trigger a default under the other facilities as well. These various facilities bear interest at one-month LIBOR plus 50 to 400 basis points and expire on various dates during the year. In addition, some of the facilities provide for the payment of minimum usage fees.

Subsequent to April 30, 2005, we increased the Trusts warehouse capacity by adding an additional $1.0 billion facility. This facility bears interest at one-month LIBOR plus 45 to 345 basis points.

When we sell loans to the Trusts, we remove the mortgage loans from our balance sheet and record the gain on the sale, cash and a beneficial interest in Trusts, which represents the ultimate expected outcome from the disposition of the loans. Our beneficial interest in Trusts totaled $215.4 million and $153.8 million at April 30, 2005 and 2004,

respectively.

Subsequently, the Trusts, as directed by their third-party beneficial interest holders, either sell the loans directly to third-party investors or back to us to pool the loans for securitization. The decision to complete a whole loan sale or a securitization is dependent on market conditions.

For fiscal year 2005, the final disposition of loans sold to the Trusts was 92% whole loan sales and 8% securitizations. For fiscal year 2004, the final disposition was 76% whole loan sales and 24% securitizations. The current year shift to whole loan sales is due to the more favorable pricing in the whole loan

Table of Contents

market. Increased whole loan sale transactions result in cash being received earlier. Additionally, whole loan sales do not add residual interests to our balance sheet, and therefore, we do not retain balance sheet risk.

If the Trusts sell the mortgage loans in a whole loan sale, we receive cash for our beneficial interest in Trusts. In a securitization transaction, the Trusts transfer the loans and the corresponding right to receive all payments on the loans to our consolidated special purpose entity, after which we transfer our beneficial interest in Trusts and the loans to a securitization trust. The securitization trust meets the definition of a QSPE and is therefore not consolidated. The securitization trust issues bonds, which are supported by the cash flows from the pooled loans, to third-party investors. We retain an interest in the loans in the form of a residual interest and, therefore, usually assume the first risk of loss for credit losses in the loan pool. As the cash flows of the underlying loans and market conditions change, the value of our residual interests may also change, resulting in potential write-ups or impairment of our residual interests.

At the settlement of each securitization, we record cash received and our residual interests. Additionally, we reverse the beneficial interest in Trusts. These residual interests are classified as trading securities. See Item 8, note 1 to our consolidated financial statements for our methodology used in valuing our residual interests.

To accelerate the cash flows from our residual interests, we securitize the majority of our residual interests in net interest margin (NIM) transactions. In a NIM transaction, the residual interests are transferred to another QSPE (NIM trust), which then issues bonds to third-party investors. The proceeds from the bonds are returned to us as payment for the residual interests. The bonds are secured by the pooled residual interests and are obligations of the NIM trust. We retain a subordinated interest in the NIM trust, and receive cash flows on our residual interest generally after the NIM bonds issued to the third-party investors are paid in full.

At the settlement of each NIM transaction, we remove the residual interests sold from our consolidated balance sheet and record the cash received and the new residual interest retained. These residual interests are classified as available-for-sale securities.

Residual interests retained from NIM securitizations may also be sold in a subsequent securitization or sale transaction.

Loans totaling $6.7 billion and $3.2 billion were held by the Trusts as of April 30, 2005 and 2004, respectively, and were not recorded on our consolidated balance sheets.

In connection with the sale of mortgage loans, we provide certain representations and warranties allowing the purchaser the option of returning the purchased loans to us under certain conditions. We may recognize losses as a result of the repurchase of loans under these arrangements. We maintain reserves for the repurchase of loans based on historical trends. See Item 8, note 17 to our consolidated financial statements.

The Financial Accounting Standards Board (FASB) intends to reissue the exposure draft, Qualifying Special Purpose Entities and Isolation of Transferred Assets, an Amendment of FASB Statement No. 140, during the third quarter of calendar year 2005. The purpose of the proposal is to provide more specific guidance on the accounting for transfers of financial assets to a QSPE.

Provisions in the first exposure draft, as well as tentative decisions reached by the FASB during its deliberations, may require us to consolidate our current QSPEs (the Trusts) established in our Mortgage Services segment. As of April 30, 2005, the Trusts had both assets and liabilities of $6.7 billion. The provisions of the exposure draft are subject to FASB due process and are subject to change. We will continue to monitor the status of the exposure draft, and consider changes, if any, to current structures as a result of the proposed rules.

COMMERCIAL PAPER ISSUANCE

We participate in the U.S. and Canadian commercial paper (CP) markets to meet daily cash needs and fund mortgage loans. CP is issued by BFC and Block Canada, wholly-owned subsidiaries of the Company. The following chart provides the debt ratings for BFC as of April 30, 2005 and 2004:

	Short-term	Long-term
Fitch	F1	A
Moody s	P2	A3
S&P	A2	BBB+

The following chart provides the debt ratings for Block Canada as of April 30, 2005 and 2004:

	Short-term	Corporate	Trend
DBRS	R-1 (low)	A	Stable
Moody s	P2		

We use capital primarily to fund working capital requirements, pay dividends, repurchase our shares and acquire businesses. Commercial paper borrowings peaked at $2.1 billion in February 2005 related to funding of our participation

Table of Contents

interests in RALs. No CP was outstanding at April 30, 2005 or 2004.

U.S. CP issuances are supported by unsecured committed lines of credit (CLOCs). During fiscal year 2005, we replaced our single $2.0 billion CLOC with two $1.0 billion CLOCs. The two CLOCs are from a consortium of thirty-one banks. The first $1.0 billion CLOC is subject to annual renewal in August 2005, has a one-year term-out provision with a maturity date in August 2006 and has an annual facility fee of ten basis points per annum. The second $1.0 billion CLOC has a maturity date of August 2009 and has an annual facility fee of twelve basis points per annum. These lines are subject to various affirmative and negative covenants, including a minimum net worth covenant.

An additional line of credit of $750.0 million was put into place for the period of January 26 to February 25, 2005 as an alternative to CP issuance during the peak RAL season. This line is subject to various covenants, substantially similar to the primary CLOCs.

These CLOCs were undrawn at April 30, 2005. There are no rating contingencies under the CLOCs.

The Canadian issuances are supported by a credit facility provided by one bank in an amount not to exceed $125.0 million (Canadian). The Canadian CLOC is subject to annual renewal in December 2005. This CLOC was undrawn at April 30, 2005.

We believe the CP market to be stable. Risks to the stability of our CP market participation would be a short-term rating downgrade, adverse changes in our financial performance, non-renewal or termination of the CLOCs, adverse publicity and operational risk within the CP market. We believe if any of these events were to occur, the CLOCs, to the extent available, could be used for an orderly exit from the CP market, though at a higher cost to us. Additionally, we could turn to other sources of liquidity, including cash, debt issuance under the existing shelf registration and asset sales or securitizations.

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

A summary of our obligations to make future payments as of April 30, 2005 is as follows:

					(in 000s)
	Total	Less Than 1 Year	1 - 3 Years	4 - 5 Years	After 5 Years
Debt	**$ 897,046**	**$ 45**	**$ 498,916**	**$ 91**	**$ 397,994**
Long-term obligation to government	**213,360**	**106,680**	**106,680**		**-**
Acquisition payments	**38,022**	**25,159**	**12,863**		**-**
Pension obligation assumed	**15,929**	**2,625**	**4,545**	**3,698**	**5,061**
Capital lease obligation	**13,550**	**341**	**730**	**997**	**11,482**
Operating leases	**708,611**	**229,768**	**313,264**	**124,945**	**40,634**
Total contractual cash obligations	**$ 1,886,518**	**$ 364,618**	**$ 936,998**	**$ 129,731**	**$ 455,171**

In October 2004, we issued $400.0 million of 5.125% Senior Notes, due 2014. The Senior Notes are not redeemable by the bondholders prior to maturity. The net proceeds of this transaction were used to repay the $250.0 million in 6 3/4% Senior Notes, which were due November 1, 2004. The remaining proceeds were used for working capital, capital expenditures, repayment of other debt and other general corporate purposes.

In April 2000, we issued $500.0 million of 8 1/2% Senior Notes, due 2007. The Senior Notes are not redeemable prior to maturity. The net proceeds of this transaction were used to repay a portion of the short-term borrowings that initially funded the acquisition of OLDE.

Future payments related to Business Services acquisitions and capital lease obligations are included in long-term debt on our consolidated balance sheets. Our debt to total capital ratio was 32.4% at April 30, 2005, compared with 31.1% at April 30, 2004.

As of April 30, 2005, we had $850.0 million remaining under our shelf registration available for additional debt issuances. As a result of our failure to file this Form 10-K by the SEC s prescribed due date, we are unable to issue any debt securities under the shelf registration statement for a period of twelve months.

In connection with our acquisition of the non-attest assets of M&P in August 1999, we assumed certain pension liabilities related to M&P s retired partners. We make payments in varying amounts on a monthly basis, which are included in other noncurrent liabilities.

Operating leases, although requiring future cash payments, are not included in our consolidated balance sheets.

Table of Contents

A summary of our commitments as of April 30, 2005, which may or may not require future payments, expire as follows:

(in 000s)

	Total	Less Than 1 Year	1 - 3 Years	4 - 5 Years	After 5 Years
Commitments to fund mortgage loans	**$ 3,931,926**	**$ 3,931,926**	**$**	**$**	**$**
Commitments to sell mortgage loans	**8,707,000**	**8,707,000**			
Pledged securities	**44,609**	**44,609**			
Commitment to fund M&P	**75,000**	**75,000**			
Franchise Equity Lines of Credit	**68,949**	**20,122**	**20,476**	**28,351**	
Mortgage loan repurchase obligations	**41,233**	**41,233**			
Construction of new building	**143,116**	**103,505**	**39,611**		
Other commercial commitments	**8,219**	**5,221**	**2,500**	**458**	**40**
Total commercial commitments	**$ 13,020,052**	**$ 12,928,616**	**$ 62,587**	**$ 28,809**	**$ 40**

See discussion of commitments in Item 8, note 17 to our consolidated financial statements.

REGULATORY ENVIRONMENT

The U.S., various state, local, provincial and foreign governments and some self-regulatory organizations have enacted statutes and ordinances, and/or adopted rules and regulations, regulating aspects of our business. These aspects include, but are not limited to, commercial income tax return preparers, income tax courses, the electronic filing of income tax returns, the facilitation of RALs, loan originations and assistance in loan originations, mortgage lending, privacy, consumer protection, franchising, sales methods, brokers, broker-dealers and various aspects of securities transactions, financial planners, investment advisors, accountants and the accounting practice. We seek to determine the applicability of such statutes, ordinances, rules and regulations (collectively, Laws) and comply with those Laws.

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

NEW ACCOUNTING PRONOUNCEMENTS

See Item 8, note 1 to our consolidated financial statements for a discussion of recently issued accounting pronouncements.

RECONCILIATION OF NON-GAAP FINANCIAL INFORMATION

We report our financial results in accordance with generally accepted accounting principles (GAAP). However, we believe certain non-GAAP performance measures and ratios used in managing the business may provide additional meaningful comparisons between current year results and prior periods, by excluding certain items that do not represent results from our basic operations. Reconciliations to GAAP financial measures are provided below. These non-GAAP financial measures should be viewed in addition to, not as an alternative for, our reported GAAP results.

Origination Margin (dollars in 000s)

Year Ended April 30,	2005	Restated 2004	Restated 2003
Total expenses	**$ 749,925**	$ 635,186	$ 493,756
Add: Expenses netted against gain on sale revenues	**378,304**	267,780	162,332
Less:			
Cost of services	**221,300**	193,018	141,419
Cost of acquisition	**169,621**	114,707	59,637
Allocated support departments	**24,161**	21,124	7,630
Other	**20,323**	31,378	28,238
	$ 692,824	$ 542,739	$ 419,164
Divided by origination volume	**$ 31,001,724**	$ 23,256,013	$ 16,577,621
Total cost of origination	**2.23%**	2.33%	2.53%

Table of Contents

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

DISCUSSION OF FINANCIAL RESPONSIBILITY >>>

We at H&R Block are guided by our core values of client focus, integrity, excellence, respect and teamwork. These values govern the manner in which we serve clients and each other, and are embedded in the execution and delivery of our responsibilities to our shareholders. H&R Block s Management is responsible for the integrity and objectivity of the information contained in this document. Management is responsible for the consistency of reporting this information and for ensuring that accounting principles generally accepted in the United States are used. In discharging this responsibility, Management maintains an extensive program of internal audits and require the management teams of our individual subsidiaries to certify their respective financial information. Our system of internal control over financial reporting also includes formal policies and procedures, including a Code of Business Ethics and Conduct program designed to encourage and assist all employees and directors in living up to high standards of integrity.

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

KPMG LLP audited our 2005 and 2004 consolidated financial statements and PricewaterhouseCoopers LLP audited our 2003 consolidated financial statements. Their audits were conducted in accordance with the standards of the Public Company Accounting Oversight Board (U.S.).

MANAGEMENT S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING >>>

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). Under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) as of April 30, 2005.

Based on our assessment, management determined that a material weakness existed in the Company s internal controls over accounting for income taxes as of April 30, 2005. Specifically, the Company did not maintain sufficient resources in the corporate tax function to accurately identify, evaluate and report, in a timely manner, non-routine and complex transactions. In addition, the Company had not completed the requisite historical analysis and related reconciliations to ensure tax balances were appropriately stated prior to the completion of the Company s internal control activities. These deficiencies resulted in errors in the Company s accounting for income taxes. These errors were corrected prior to issuance of the consolidated financial statements as of and for the year ended April 30, 2005. In the aggregate, these deficiencies represent a material weakness in internal control over financial reporting on the basis that there is a more than remote likelihood that a material misstatement of the Company s annual or interim financial statements will not be prevented or detected by its internal control over financial reporting. Because of this material weakness in internal control over financial reporting, management concluded that, as of April 30, 2005, the Company s internal control over financial reporting was not effective based on the criteria set forth by COSO.

Mark A. Ernst
Chairman of the Board, President and Chief Executive Officer
William L. Trubeck
Executive Vice President and Chief Financial Officer

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM >>>

The Board of Directors and Stockholders of H&R Block, Inc.:

We have audited the accompanying consolidated balance sheets of H&R Block, Inc. and its subsidiaries (the Company) as of April 30, 2005 and 2004, and the related consolidated statements of income and comprehensive income, stockholders equity, and cash flows for each of the years in the two-year period ended April 30, 2005. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of H&R Block, Inc. and its subsidiaries as of April 30, 2005 and 2004, and the results of their operations and their cash flows for each of the years in the two-year period ended April 30, 2005, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting to adopt Emerging Issues Task Force Issue No. 00-21, Revenue Arrangements with Multiple Deliverables, and Statement of Financial Accounting Standards No. 148, Accounting for Stock-Based Compensation- Transition and Disclosure during the year ended April 30, 2004.

As discussed in Note 2 to the consolidated financial statements, the Company restated its financial statements for its fiscal years ended April 30, 2005 and 2004.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company s internal control over financial reporting as of April 30, 2005, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated July 29, 2005 expressed an unqualified opinion on management s assessment of, and an adverse opinion on the effective operation of, internal control over financial reporting.

Kansas City, Missouri

July 29, 2005, except as to note 2(A), which is as of March 30, 2006 and note 19, which is as of August 4, 2005

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM >>>

The Board of Directors and Stockholders of H&R Block, Inc.:

We have audited management s assessment, included in the accompanying *Management s Report On Internal Control Over Financial Reporting (Item 9A(b)),* that H&R Block, Inc. and subsidiaries (the Company) did not maintain effective internal control over financial reporting as of April 30, 2005, because of the effect of the material weakness identified in management s assessment that the Company s controls and procedures over accounting for income taxes were ineffective, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management s assessment and an opinion on the effectiveness of the Company s internal control over financial reporting based on our audit.

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

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with

Table of Contents

generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. The following material weakness has been identified and included in management s assessment: The Company did not maintain sufficient resources in the corporate tax function to accurately identify, evaluate and report, in a timely manner, nonroutine and complex transactions. In addition, the Company had not completed the requisite historical analysis and related reconciliations to ensure tax balances were appropriately stated prior to the completion of the Company s internal control activities. These deficiencies resulted in errors in the Company s accounting for income taxes. Because of these deficiencies, there is more than a remote likelihood that a material misstatement in the Company s annual or interim financial statements due to errors in accounting for income taxes could occur and not be prevented or detected by its internal control over financial reporting.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of H&R Block, Inc. and subsidiaries as of April 30, 2005 and 2004, and the related consolidated statements of income and comprehensive income, stockholders equity, and cash flows for each of the years in the two-year period ended April 30, 2005. The aforementioned material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the fiscal year 2005 consolidated financial statements, and this report does not affect our report dated July 29, 2005, which expressed an unqualified opinion on those consolidated financial statements.

In our opinion, management s assessment that H&R Block, Inc. and subsidiaries did not maintain effective internal control over financial reporting as of April 30, 2005, is fairly stated, in all material respects, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, because of the effect of the material weakness described above on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of April 30, 2005, based on criteria established in *Internal Control Integrated Framework issued* by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Kansas City, Missouri
July 29, 2005

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM >>>

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

In our opinion, the accompanying consolidated statements of income and comprehensive income, of cash flows and of stockholders equity present fairly, in all material respects, the results of operations and cash flows of H&R Block, Inc. and its subsidiaries (the Company) for the year ended April 30, 2003 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company s management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 2(B) and 2(C), the financial statements have been restated for the year ended April 30, 2003.

June 10, 2003, except for Note 2(B) and Note 2(C) as to which the date is July 29, 2005, and Note 19 and Note 22 as to which the date is August 4, 2005

Kansas City, Missouri

Table of Contents

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(Amounts in 000s, except per share amounts)

Year Ended April 30,	**Restated (1) 2005**	Restated (1) 2004	Restated (1) 2003
REVENUES >>>			
Service revenues	**$ 2,920,586**	$ 2,639,367	$ 2,295,936
Other revenues:			
Gains on sales of mortgage assets, net	**822,075**	918,297	827,127
Product and other revenues	**478,443**	460,421	412,995
Interest income	**198,915**	229,795	195,068
	4,420,019	4,247,880	3,731,126
OPERATING EXPENSES >>>			
Cost of service revenues	**1,999,220**	1,794,501	1,625,937
Cost of other revenues	**416,421**	380,365	300,749
Impairment of goodwill			122,251
Selling, general and administrative	**952,125**	848,675	760,864
	3,367,766	3,023,541	2,809,801
Operating income	**1,052,253**	1,224,339	921,325
Interest expense	**62,367**	71,218	76,723
Other income, net	**27,829**	9,854	10,962
Income before taxes	**1,017,715**	1,162,975	855,564
Income taxes	**393,805**	462,523	377,949
Net income before change in accounting principle	**623,910**	700,452	477,615
Cumulative effect of change in accounting principle for multiple deliverable revenue arrangements, less tax benefit of $4,031		(6,359)	
NET INCOME	**$ 623,910**	$ 694,093	$ 477,615
BASIC EARNINGS PER SHARE >>>			
Before change in accounting principle	**$ 1.88**	$ 1.98	$ 1.33
Cumulative effect of change in accounting principle		(.02)	
Net income	**$ 1.88**	$ 1.96	$ 1.33
DILUTED EARNINGS PER SHARE >>>			
Before change in accounting principle	**$ 1.85**	$ 1.94	$ 1.30
Cumulative effect of change in accounting principle		(.02)	

Net income	**$ 1.85**	$ 1.92	$ 1.30
COMPREHENSIVE INCOME >>>			
Net income	**$ 623,910**	$ 694,093	$ 477,615
Unrealized gains on securities, net of taxes:			
Unrealized holding gains arising during the period, less taxes of $36,670, $64,174, and $70,983	**59,409**	103,886	114,885
Reclassification adjustment for gains included in income, less taxes of $40,661, $67,561 and $72,370	**(65,848)**	(109,385)	(117,073)
Change in foreign currency translation adjustments	**8,946**	12,355	17,415
	$ 626,417	$ 700,949	$ 492,842

(1) See note 2.

See accompanying notes to consolidated financial statements.

Table of Contents

CONSOLIDATED BALANCE SHEETS

(Amounts in 000s, except share and per share amounts)

April 30,	**Restated (1) 2005**	Restated (1) 2004
ASSETS		
CURRENT ASSETS >>>		
Cash and cash equivalents	**$ 1,100,213**	$ 1,072,745
Cash and cash equivalents restricted	**516,909**	545,428
Receivables from customers, brokers, dealers and clearing organizations, less allowance for doubtful accounts of $1,151 and $1,103	**590,226**	625,076
Receivables, less allowance for doubtful accounts of $38,879 and $53,418	**418,788**	329,219
Prepaid expenses and other current assets	**444,498**	381,024
Total current assets	**3,070,634**	2,953,492
Residual interests in securitizations available-for-sale	**205,936**	210,973
Beneficial interest in Trusts trading	**215,367**	153,818
Mortgage servicing rights	**166,614**	113,821
Property and equipment, net	**330,150**	273,303
Intangible assets, net	**247,092**	293,477
Goodwill, net	**1,015,947**	993,467
Other assets	**286,316**	241,476
Total assets	**$ 5,538,056**	$ 5,233,827
LIABILITIES AND STOCKHOLDERS EQUITY		
LIABILITIES >>>		
Current portion of long-term debt	**$ 25,545**	$ 275,669
Accounts payable to customers, brokers and dealers	**950,684**	1,065,793
Accounts payable, accrued expenses and other	**564,749**	461,640
Accrued salaries, wages and payroll taxes	**318,644**	280,367
Accrued income taxes	**375,174**	430,119
Total current liabilities	**2,234,796**	2,513,588
Long-term debt	**923,073**	545,811
Other noncurrent liabilities	**430,919**	369,769
Total liabilities	**3,588,788**	3,429,168
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS EQUITY >>>		
Common stock, no par, stated value $.01 per share, 800,000,000 shares authorized, 435,890,796 shares issued at April 30, 2005 and 2004	**4,359**	4,359
Convertible preferred stock, no par, stated value $.01 per share, 500,000 shares authorized		
Additional paid-in capital	**598,388**	542,885

Accumulated other comprehensive income	**68,718**	66,211
Retained earnings	**3,161,682**	2,680,760
Less treasury shares, at cost	**(1,883,879)**	(1,489,556)
Total stockholders equity	**1,949,268**	1,804,659
Total liabilities and stockholders equity	**$ 5,538,056**	$ 5,233,827

(1) See note 2.

See accompanying notes to consolidated financial statements.

Table of Contents

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in 000s)

Year Ended April 30,	**Restated (1) 2005**	Restated (1) 2004	Restated (1) 2003
CASH FLOWS FROM OPERATING ACTIVITIES >>>			
Net income	**$ 623,910**	$ 694,093	$ 477,615
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**183,867**	179,131	169,092
Provision for bad debt	**52,221**	53,663	49,748
Provision for deferred taxes on income	**(40,023)**	(2,081)	(29,944)
Accretion of residual interests in securitizations	**(137,610)**	(186,466)	(146,343)
Impairment of residual interests in securitizations	**12,235**	26,063	54,111
Realized gain on sale of previously securitized residual interests	**(15,396)**	(40,689)	(93,307)
Additions to trading securities residual interests in securitizations	**(115,657)**	(327,996)	(542,544)
Proceeds from net interest margin transactions	**98,743**	310,358	541,791
Additions to mortgage servicing rights	**(137,510)**	(84,274)	(65,345)
Amortization of mortgage servicing rights	**84,191**	69,718	47,107
Net change in beneficial interest in Trusts	**(61,549)**	(17,222)	(84,655)
Impairment of goodwill			122,251
Tax benefit from stock option exercises	**10,961**	23,957	37,304
Stock-based compensation	**44,139**	25,718	2,079
Cumulative effect of change in accounting principle		6,359	
Changes in assets and liabilities, net of acquisitions:			
Cash and cash equivalents restricted	**28,519**	(107,186)	(286,069)
Receivables from customers, brokers, dealers and clearing organizations	**33,892**	(108,846)	326,824
Receivables	**(121,177)**	26,294	(72,423)
Mortgage loans held for sale:			
Originations and purchases	**(31,003,456)**	(23,255,483)	(17,827,828)
Sales and principal repayments	**30,990,566**	23,246,815	17,837,323
Prepaid expenses and other current assets	**(53,858)**	26,978	43,818
Accounts payable to customers, brokers and dealers	**(115,109)**	203,099	(40,507)
Accounts payable, accrued expenses and other	**113,419**	(104,563)	60,454
Accrued salaries, wages and payroll taxes	**38,277**	70,521	(42,911)
Accrued income taxes	**(20,281)**	110,021	111,822
Other, net	**20,479**	14,481	40,272
Net cash provided by operating activities	**513,793**	852,463	689,735
CASH FLOWS FROM INVESTING ACTIVITIES >>>			
Available-for-sale securities:			
Purchases of available-for-sale securities	**(10,175)**	(11,434)	(14,614)
Cash received from residual interests in securitizations	**136,045**	193,606	140,795

Cash proceeds from sale of previously securitized residuals	**16,485**	53,391	142,486
Sales of other available-for-sale securities	**9,752**	15,410	14,081
Purchases of property and equipment, net	**(209,458)**	(123,826)	(148,706)
Payments made for business acquisitions, net of cash acquired	**(37,621)**	(280,865)	(26,408)
Other, net	**36,562**	26,332	19,895
Net cash provided by (used in) investing activities	**(58,410)**	(127,386)	127,529
CASH FLOWS FROM FINANCING ACTIVITIES >>>			
Repayments of commercial paper	**(5,191,623)**	(4,618,853)	(9,925,516)
Proceeds from issuance of commercial paper	**5,191,623**	4,618,853	9,925,516
Repayments of Senior Notes	**(250,000)**		
Proceeds from issuance of Senior Notes	**395,221**		
Payments on acquisition debt	**(25,664)**	(59,003)	(57,469)
Dividends paid	**(142,988)**	(138,397)	(125,898)
Acquisition of treasury shares	**(530,022)**	(519,862)	(317,570)
Proceeds from issuance of common stock	**136,102**	119,956	126,325
Other, net	**(10,564)**	31,681	(2,572)
Net cash used in financing activities	**(427,915)**	(565,625)	(377,184)
Net increase in cash and cash equivalents	**27,468**	159,452	440,080
Cash and cash equivalents at beginning of the year	**1,072,745**	913,293	473,213
Cash and cash equivalents at end of the year	**$ 1,100,213**	$ 1,072,745	$ 913,293

(1) See note 2.

See accompanying notes to consolidated financial statements.

Table of Contents

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(Amounts in 000s, except per share amounts)

	Common Stock		Convertible Preferred Stock		Additional Paid-in	Accumulated Other Comprehensive Income	Retained	Treasury Stock		Total
	Shares	Amount	Shares	Amount	Capital	(Loss)	Earnings	Shares	Amount	Equity
Balances at April 30, 2002 (1)	435,891	$ 4,359		$	$ 465,872	$ 44,128	$ 1,767,702	(73,639)	$ (912,641)	$ 1,369,420
Prior year adjustment (2)							5,645			5,645
Balances at April 30, 2002 (2)	435,891	4,359			465,872	44,128	1,773,347	(73,639)	(912,641)	1,375,065
Net income (2)							477,615			477,615
Unrealized translation gain						17,415				17,415
Change in net unrealized gain on marketable securities (2)						(2,188)				(2,188)
Shares issued for:										
Stock options					27,241			10,140	135,409	162,650
Restricted shares					5			(128)	(1,306)	(1,301)
ESPP					1,095			187	2,515	3,610
Acquisition of treasury shares								(13,248)	(317,570)	(317,570)
Cash dividends paid $.35 per share							(125,898)			(125,898)
Balances at April 30, 2003 (2)	435,891	4,359			494,213	59,355	2,125,064	(76,688)	(1,093,593)	1,589,398
Net income (2)							694,093			694,093
Unrealized translation gain						12,355				12,355
Change in net unrealized						(5,499)				(5,499)

gain on marketable securities [2]								
Stock-based compensation expense			25,718					25,718
Shares issued for:								
Stock options			21,585			7,856	117,975	139,560
Restricted shares			385			145	2,103	2,488
ESPP			984			255	3,821	4,805
Acquisition of treasury shares						(21,266)	(519,862)	(519,862)
Cash dividends paid $.39 per share					(138,397)			(138,397)
Balances at April 30, 2004 [2]	435,891	4,359	542,885	66,211	2,680,760	(89,698)	(1,489,556)	1,804,659
Net income [2]					**623,910**			**623,910**
Unrealized translation gain				**8,946**				**8,946**
Change in net unrealized gain on marketable securities				**(6,439)**				**(6,439)**
Stock-based compensation expense			**44,139**					**44,139**
Shares issued for:								
Stock options			**15,892**			**6,959**	**124,263**	**140,155**
Restricted shares			**(5,718)**			**352**	**6,098**	**380**
ESPP			**1,190**			**301**	**5,338**	**6,528**
Acquisition of treasury shares						**(22,564)**	**(530,022)**	**(530,022)**
Cash dividends paid $.43 per share					**(142,988)**			**(142,988)**
Balances at April 30, 2005 [2]	**435,891**	**$ 4,359**	**$ $ 598,388**	**$ 68,718**	**$ 3,161,682**	**(104,650)**	**$ (1,883,879)**	**$ 1,949,268**

(1) As previously reported.

(2) As restated, see note 2.

See accompanying notes to consolidated financial statements.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS >>> Our operating subsidiaries provide a variety of financial services to the general public, principally in the U.S. Specifically, we offer tax return preparation; origination, sale and servicing of non-prime and prime mortgages; investment services through a broker-dealer; tax preparation and related software; refund anticipation loans offered by a third-party lending institution; and accounting, tax and consulting services to business clients. Tax preparation services are also provided in Canada, Australia and the United Kingdom

PRINCIPLES OF CONSOLIDATION >>> The consolidated financial statements include the accounts of the Company and our wholly-owned and majority-owned subsidiaries. All material intercompany transactions and balances have been eliminated.

Some of our subsidiaries operate in regulated industries, and their underlying accounting records reflect the policies and requirements of these industries.

RECLASSIFICATIONS >>> Certain reclassifications have been made to prior year amounts to conform to the current year presentation. The previously reported International Tax Operations segment has been aggregated with U.S. Tax Operations in the Tax Services segment.

We have modified our income statement to present aggregate costs related to our revenue categories, rather than presenting operating expenses by their natural classification. All direct costs, both fixed and variable, of revenues are included in these categories.

We reclassified $167.7 million and $103.3 million for the fiscal years ended April 30, 2004 and 2003, respectively, from interest income to gain on sale, representing excess cash received from our beneficial interest in Trusts. The beneficial interest in Trusts is reported at fair value at each balance sheet date. Changes in fair value are included in current period earnings. The excess cash received and mark-to-market adjustment for each period have been classified as gain on sale of mortgage loans. We also increased gains on sales of mortgage for fiscal years 2004 and 2003, related to the reclassification of certain compensation and benefits expenses previously presented net in revenues.

Deferred taxes and taxes payable have been reclassified for a change in method of income tax reporting we initiated during fiscal year 2004 resulting in a decrease to total assets and liabilities of $101.3 million at April 30, 2004.

These reclassifications had no effect on the results of operations or stockholders equity as previously reported. Adjustments related to the restatements of previously issued financial statements are detailed in note 2.

MANAGEMENT ESTIMATES >>> The preparation of financial statements in conformity with generally accepted accounting principles 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. Actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS >>> Cash and cash equivalents include cash on hand, cash due from banks and securities purchased under agreements to resell. For purposes of the consolidated balance sheets and consolidated statements of cash flows, all non-restricted highly liquid instruments purchased with an original maturity of three months or less are considered to be cash equivalents. Book overdrafts included in accounts payable totaled $92.7 million and $104.8 million at April 30, 2005 and 2004, respectively.

Our broker-dealer purchases securities under agreements to resell and accounts for them as collateralized financings. The securities are carried at the amounts at which the securities will be subsequently resold, as specified in the respective agreements. It is our policy to take possession of securities, subject to resale agreements. The securities are revalued daily and collateral added whenever necessary to bring market value of the underlying collateral to a level equal to or greater than the repurchase amount specified in the contracts.

CASH AND CASH EQUIVALENTS RESTRICTED >>> Cash and cash equivalents restricted consists primarily of securities purchased under agreements to resell and cash which has been segregated in a special reserve account for the exclusive benefit of customers pursuant to federal regulations under Rule 15c3-3 of the Securities Exchange Act of 1934. Also included are cash balances held for outstanding commitments to fund mortgage loans and funds held to pay payroll taxes on behalf of customers.

MARKETABLE SECURITIES TRADING >>> Certain marketable debt securities held by our broker-dealer are classified as trading, carried at market value based on quoted prices and marked to market through the consolidated income statements. Certain residual interests in securitizations of mortgage loans are classified as trading based on management s intentions, carried at market value based on discounted cash flow models and marked to market through the consolidated income statements. These securities are included in prepaid

Table of Contents

expenses and other current assets on the consolidated balance sheets.

RECEIVABLES FROM CUSTOMERS, BROKERS, DEALERS AND CLEARING ORGANIZATIONS AND ACCOUNTS PAYABLE TO CUSTOMERS, BROKERS AND DEALERS >>> Customer receivables and payables consist primarily of amounts due on margin and cash transactions. These receivables are collateralized by customers securities held, which are not reflected in the accompanying consolidated financial statements.

Receivables from brokers are collateralized by securities in our physical possession, or on deposit with us, or receivables from customers or other brokers. The allowance for doubtful accounts represents an amount considered by management to be adequate to cover potential losses.

Securities borrowed and securities loaned transactions are generally reported as collateralized financing. These transactions require deposits of cash and/or collateral with the lender. Securities loaned consist of securities owned by customers that were purchased on margin. When loaning securities, cash collateral approximately equal to the value of the securities loaned is received. The amount of cash collateral is adjusted, as required, for market fluctuations in the value of the securities loaned. Interest rates paid on the cash collateral fluctuate as short-term interest rates change.

RECEIVABLES >>> Receivables consist primarily of Business Services accounts receivable and mortgage loans held for sale. Mortgage loans held for sale are carried at the lower of aggregate cost or market value as determined by outstanding commitments from investors or current investor-yield requirements calculated on an aggregate basis. The allowance for doubtful accounts requires management s judgment regarding current market indicators concerning general economic trends to establish an amount considered by management to be adequate to cover potential losses related to our non-mortgage loan receivable balance.

RESIDUAL INTERESTS IN SECURITIZATIONS >>> Residual interests classified as available-for-sale securities are carried at market value based on discounted cash flow models with unrealized gains included in other comprehensive income. The residual interests are accreted over the estimated life of the securitization structure. If the carrying value exceeds market value, the residual is written down to market value with the realized loss, net of any unrealized gain previously recorded in other comprehensive income, included in gains on sales of mortgage assets in the consolidated income statements.

We estimate future cash flows from these residuals and value them using assumptions we believe to be consistent with those of unaffiliated third-party purchasers. We estimate the fair value of residuals by computing the present value of the excess of the weighted-average interest rate on the loans sold plus estimated collections of prepayment penalty fee income over the sum of (1) the coupon on the securitization bonds, (2) a contractual servicing fee paid to the servicer of the loans, which is usually Option One, (3) expected losses to be incurred on the portfolio of the loans sold, as projected to occur, over the lives of the loans, (4) fees payable to the trustee and insurer, if applicable, and (5) payments made to investors on NIM bonds, if applicable. The residual valuation takes into consideration the current and expected interest rate environment, including projected changes in future interest rates and the timing of such changes. Prepayment and loss assumptions used in estimating the cash flows are based on evaluation of the actual experience of the servicing portfolio, the characteristics of the applicable loan portfolio, as well as also taking into consideration the current and expected economic and interest rate environment and its expected impact. The estimated cash flows are discounted at an interest rate we believe an unaffiliated third-party purchaser would require as a rate of return on a financial instrument with a similar risk profile. We evaluate, and adjust if necessary, the fair values of residual interests quarterly by updating the actual performance and expected assumptions in the discounted cash flow models based on current information and events and by estimating, or validating with third-party experts, if necessary, what a market participant would use in determining the current fair value. To the extent that actual excess cash flows are different from estimated excess cash flows, the fair value of the residual would increase or decrease.

BENEFICIAL INTEREST IN TRUSTS TRADING >>> The beneficial interest in Trusts is recorded as a result of daily non-prime whole loan sales to Trusts. The beneficial interest is classified as a trading security, based on management s intentions, is carried at market value and is marked to market through the consolidated income statements. Market value is calculated as the present value of future cash flows, limited by the ultimate expected outcome from the disposition of the loans by the Trusts.

MORTGAGE SERVICING RIGHTS >>> MSRs retained in the sale of mortgage loans are recorded at allocated carrying amounts based on relative fair values at the time of the sale. The MSRs are carried at the lower of cost or fair

value. Fair values of MSRs are determined based on the present value of estimated future cash flows related to servicing loans. Assumptions used in estimating the value of MSRs include market discount rates and anticipated prepayment speeds including default, estimated ancillary fee income and other

Table of Contents

economic factors. The prepayment speeds are estimated using our historical experience and third-party market sources. The MSRs are amortized to earnings in proportion to, and over the period of, estimated net future servicing income. MSRs are reviewed quarterly for potential impairment. Impairment is assessed based on the fair value of each risk stratum. MSRs are stratified by the fiscal year of the loan sale date, which approximates date of origination, and loan type, usually 6-month adjustable, 2- to 3-year adjustable and fixed rate.

PROPERTY AND EQUIPMENT >>> Buildings and equipment are initially recorded at cost and are depreciated over the estimated useful life of the assets using the straight-line method. Leasehold improvements are initially recorded at cost and are amortized over the lesser of the term of the respective lease or the estimated useful life, using the straight-line method. Estimated useful lives are 15 to 40 years for buildings, 3 to 5 years for computers and other equipment and up to 8 years for leasehold improvements.

We capitalize certain allowable costs associated with software developed or purchased for internal use. These costs are amortized over 36 months using the straight-line method.

INTANGIBLE ASSETS AND GOODWILL >>> We account for intangible assets and goodwill in accordance with Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets, (SFAS 142). We test goodwill and other indefinite life intangible assets for impairment annually or more frequently, whenever events occur or circumstances change which would, more likely than not, reduce the fair value of a reporting unit below its carrying value. We have defined our reporting units as our operating segments or one level below. The first step of the impairment test is to compare the estimated fair value of the reporting unit to its carrying value. If the carrying value is less than fair value, no impairment exists. If the carrying value is greater than fair value, a second step is performed to determine the fair value of goodwill and the amount of impairment loss, if any. These tests were completed and no indications of goodwill impairment were found during fiscal year 2005 or 2004. During fiscal year 2003, impairment charges of $108.8 million and $13.5 million were recorded in the Investment Services and Business Services segments, respectively.

In addition, long-lived assets, including intangible assets with finite lives, are assessed for impairment whenever events or circumstances indicate the carrying value may not be fully recoverable by comparing the carrying value to future undiscounted cash flows. To the extent there is impairment, an analysis is performed based on several criteria, including, but not limited to, revenue trends, discounted operating cash flows and other operating factors to determine the impairment amount. No material impairment adjustments to other intangible assets or other long-lived assets were made during the three-year period ended April 30, 2005. The weighted-average life of intangible assets with finite lives is nine years.

COMMERCIAL PAPER >>> Short-term borrowings are used to finance temporary liquidity needs and various financial activities. There was no commercial paper outstanding at April 30, 2005 and 2004.

LITIGATION >>> Our policy is to routinely assess the likelihood of any adverse judgments or outcomes related to legal matters, as well as ranges of probable losses. A determination of the amount of the reserves required, if any, for these contingencies is made after thoughtful analysis of each known issue and an analysis of historical experience in accordance with Statement of Financial Accounting Standards No. 5, Accounting for Contingencies, and related pronouncements. We record reserves related to certain legal matters for which it is probable that a loss has been incurred and the range of such loss can be estimated. With respect to other matters, management has concluded that a loss is only reasonably possible or remote and, therefore, no liability is recorded.

INCOME TAXES >>> We account for income taxes in accordance with Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes (SFAS 109). SFAS 109 requires us to record deferred income tax assets and liabilities for future tax consequences attributable to differences between the financial statement carrying value of existing assets and liabilities and their respective tax bases. Our deferred tax assets include tax loss and credit carryforwards and are reduced by a valuation allowance if, based on available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Our current deferred tax assets are included in prepaid expenses and other current assets on the consolidated balance sheets. Noncurrent deferred tax assets are included in other assets on our consolidated balance sheets.

We file a consolidated Federal tax return on a calendar year basis.

REVENUE RECOGNITION >>> Service revenues consist primarily of fees for preparation and filing of tax returns, both in offices and through our online programs, fees associated with our POM guarantee program, mortgage loan-servicing fees, fees for consulting services and brokerage commissions. Generally, service revenues are recorded in the period in which the service is performed. Retail and online tax preparation revenues are recorded when a completed return is filed or accepted by the customer. POM revenues are deferred and recognized over the

Table of Contents

term of the guarantee based upon historic and actual payment of claims. Revenues for services rendered in connection with the Business Services segment are recognized on a time and materials basis. Investment Services production revenue is recognized on a trade-date basis.

Gains on sales of mortgage assets are recognized when control of the assets is surrendered (when loans are sold to Trusts) and are based on the difference between cash proceeds and the allocated cost of the assets sold.

Interest income consists primarily of interest earned on customer margin loan balances and mortgage loans, and accretion income. Interest income on customer margin loan balances is recognized daily as earned based on current rates charged to customers for their margin balance. Accretion income represents interest earned over the life of residual interests using the effective interest method.

Product and other revenues include royalties, RAL participation revenues and sales of software products. Franchise royalties, which are based upon the contractual percentages of franchise revenues, are recorded in the period in which the franchise provides the service. RAL participation revenue is recorded when we purchase our participation interest in the RAL. Software revenues consist mainly of tax preparation software and other personal productivity software. Sales of software are recognized when the product is sold to the end user.

Revenue recognition is evaluated separately for each unit in multiple-deliverable arrangements.

ADVERTISING EXPENSE >>> Advertising costs are expensed the first time the advertisement is run. Total advertising costs recorded in fiscal year 2005, 2004 and 2003 totaled $195.4 million, $188.3 million and $150.8 million, respectively.

FOREIGN CURRENCY TRANSLATION >>> Assets and liabilities of foreign subsidiaries are translated into U.S. dollars at exchange rates prevailing at the end of the year. Translation adjustments are recorded as a separate component of other comprehensive income in stockholders equity. Revenue and expense transactions are translated at the average of exchange rates in effect during the period.

COMPREHENSIVE INCOME >>> Statement of Financial Accounting Standards No. 130, Reporting Comprehensive Income, establishes standards for reporting and displaying comprehensive income and its components in stockholders equity. Our comprehensive income is comprised of net income, foreign currency translation adjustments and the change in net unrealized gains or losses on available-for-sale marketable securities. Included in stockholders equity at April 30, 2005 and 2004, the net unrealized holding gain on available-for-sale securities was $71.6 million and $78.0 million, respectively, and the foreign currency translation adjustment was $(2.8) million and $(11.8) million, respectively. The net unrealized holding gain on available-for-sale securities relates primarily to residual interests in securitizations.

STOCK-BASED COMPENSATION PLANS >>> Effective May 1, 2003, we adopted the fair value recognition provisions of Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation (SFAS 123), under the prospective transition method as described in Statement of Financial Accounting Standards No. 148, Accounting for Stock-Based Compensation Transition and Disclosure (SFAS 148). We recognize stock-based compensation expense for the issuance of stock options, restricted shares and our ESPP on a straight-line basis over the vesting period. Had compensation cost for all stock-based compensation plan awards been determined in accordance with the fair value accounting method prescribed under SFAS 123, our net income and earnings per share would have been as follows:

	(in 000s, except per share amounts)		
Year Ended April 30,	**Restated 2005**	Restated 2004	Restated 2003
Net income	**$ 623,910**	$ 694,093	$ 477,615
Add: Stock-based compensation expense included in reported net income, net of taxes	**28,819**	18,029	1,223
Deduct: Total stock-based compensation expense determined under fair value method for all awards, net of taxes	**(39,544)**	(30,662)	(21,025)

Pro forma net income	**$ 613,185**	$ 681,460	$ 457,813
Basic earnings per share:			
As presented	**$ 1.88**	$ 1.96	$ 1.33
Pro forma	**1.85**	1.92	1.27
Diluted earnings per share:			
As presented	**$ 1.85**	$ 1.92	$ 1.30
Pro forma	**1.82**	1.89	1.25

DERIVATIVE ACTIVITIES >>> We record derivative instruments as assets or liabilities, measured at fair value. The recognition of gains or losses resulting from changes in the values of those derivative instruments is based on the use of each derivative instrument and whether it qualifies for hedge accounting.

We use financial instruments to mitigate interest rate risk and loan commitments related to mortgage loans which will be

Table of Contents

held for sale. We use forward loan sale commitments, interest rate swaps and interest rate caps throughout the year to manage our interest rate risk. We do not enter into derivative transactions for speculative or trading purposes. None of our derivative instruments qualify for hedge accounting treatment as of April 30, 2005 and 2004.

DISCLOSURE REGARDING CERTAIN FINANCIAL INSTRUMENTS >>> The carrying values reported in the balance sheet for cash equivalents, receivables, accounts payable, accrued liabilities and the current portion of long-term debt approximate fair market value due to the relative short-term nature of the respective instruments. Residual interests and beneficial interests in Trusts are recorded at estimated fair value as discussed above. See note 6 for the fair value of MSRs and note 10 for fair value of long-term debt.

NEW ACCOUNTING STANDARDS >>> In December 2004, Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment, (SFAS 123R) was issued. SFAS 123R requires all entities to recognize the cost of employee services received in exchange for awards of equity instruments based on the grant-date fair value of those awards. Compensation expense must be recognized for the unvested portions of all awards outstanding as of the date of adoption. The provisions of this standard were delayed by the SEC and will be effective as of the beginning of our fiscal year 2007. We are currently evaluating what effect the adoption of SFAS 123R will have on our consolidated financial statements.

In August 2003, we adopted Emerging Issues Task Force Issue No. 00-21, Revenue Arrangements with Multiple Deliverables (EITF 00-21). EITF 00-21 requires consideration received in connection with arrangements involving multiple revenue generating activities be measured and allocated to each separate unit of accounting. Revenue recognition is determined separately for each unit of accounting within the arrangement. EITF 00-21 impacts revenue recognition related to tax preparation in our premium tax offices where POM guarantees are included in the price of a completed tax return. Prior to the adoption of EITF 00-21, revenues related to POM guarantees at premium offices were recorded in the same period as tax preparation revenues. Beginning May 1, 2003, revenues related to POM guarantees are now initially deferred and recognized over the guarantee period in proportion to POM claims paid. As a result of the adoption of EITF 00-21, we recorded a cumulative effect of a change in accounting principle of $6.4 million, net of a tax benefit of $4.0 million, as of May 1, 2003.

Revenues recognized during fiscal year 2004, which were initially recognized in prior periods and recorded as part of the cumulative effect of a change in accounting principle, totaled $36.3 million.

Pro forma results, as if EITF 00-21 had been applied during fiscal year 2003, are as follows:

	(in 000s, except per share amounts)	
	As Presented	Pro Forma
Net income	$ 477,615	$ 475,969
Earnings per share:		
Basic	$ 1.33	$ 1.32
Diluted	1.30	1.29

The Financial Accounting Standards Board (FASB) intends to reissue the exposure draft, Qualifying Special Purpose Entities and Isolation of Transferred Assets, an Amendment of FASB Statement No. 140, during the third quarter of calendar year 2005. The purpose of the proposal is to provide more specific guidance on the accounting for transfers of financial assets to a QSPE.

Provisions in the first exposure draft, as well as tentative decisions reached by the FASB during its deliberations, may require us to consolidate our current QSPEs (the Trusts) established in our Mortgage Services segment. As of April 30, 2005, the Trusts had both assets and liabilities of $6.7 billion. The provisions of the exposure draft are subject to FASB due process and are subject to change. We will continue to monitor the status of the exposure draft, and consider changes, if any, to current structures as a result of the proposed rules.

The estimated impact of these new accounting standards reflects current views. There may be material differences between these estimates and the actual impact of these standards.

NOTE 2: RESTATEMENTS OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS

(A) >>> On February 22, 2006, management and the Audit Committee of the Board of Directors concluded to restate previously issued consolidated financial statements for the fiscal years ended April 30, 2005 and 2004 and the related fiscal quarters. The Company arrived at this conclusion during the course of its closing process for the quarter ended January 31, 2006. The restatement pertains primarily to errors in determining the Company s state effective income tax rate, including errors in identifying changes in state apportionment, expiring state net operating losses and related factors, for the fiscal years ended April 30, 2005 and 2004, and the related fiscal quarters. These errors resulted in an understatement of state income tax expense (net

Table of Contents

of federal income tax benefit) of $11.9 million and $15.2 million for fiscal years 2005 and 2004, respectively, an overstatement of deferred income tax assets of $1.2 million as of April 30, 2005 and an understatement of deferred income tax assets of $1.1 million as of April 30, 2004, and an understatement of accrued income taxes of $25.9 million and $16.3 million as of April 30, 2005 and 2004, respectively. The effect of the above adjustments on the consolidated financial statements is set forth in the tables in 2(C) below.

(B) >>> On June 7, 2005, management and the Audit Committee of the Board of Directors determined that restatement of our previously issued consolidated financial statements, including financial statements for the nine months ended January 31, 2005 and for the fiscal years ended April 30, 2004 and 2003 and all related interim periods, was appropriate as a result of the errors noted below. All amounts listed are pretax, unless otherwise noted.

An error in calculating the gain on sale of residual interests in fiscal year 2003, resulting in an overstatement in gain on sales of mortgage assets for that year of $37.6 million. This error was corrected by deferring a portion of the gain on sale of residual interests as of the transaction date in fiscal year 2003 and recognizing revenue from the sale as interest income from accretion of residual interests in subsequent periods. Interest income from accretion increased $18.4 million and $1.2 million in fiscal years 2004 and 2003, respectively. This correction also decreased impairments of residual interests $4.6 million and decreased comprehensive income $14.2 million in fiscal year 2004.

An error in the calculation of an incentive compensation accrual at our Mortgage Services segment as of April 30, 2004. This error resulted in an understatement of compensation expense in fiscal year 2004 of $12.1 million.

An error in accounting for leased properties related to rent holidays and mandatory rent escalation in our Tax Services, Mortgage Services and Investment Services segments. We historically recognized rent expense on a cash basis. We determined that the lease term should have commenced on the date we took possession of the leased space and the expense calculated on a straight-line basis over the lease term. Rent expense was understated in fiscal years 2004 and 2003 by $1.3 million and $3.3 million, respectively. The cumulative overstatement of retained earnings prior to fiscal year 2003 arising from this error was $4.9 million.

An error from the capitalization of certain branch office costs at our Investment Services segment, which should have been expensed as incurred. This error resulted in an understatement of occupancy expenses and an overstatement of depreciation expense and capital expenditures of a net understatement of operating expenses of $3.5 million in fiscal year 2004 and a net $2.1 million in fiscal year 2003, which is included in selling, general and administrative expenses. The cumulative overstatement of retained earnings prior to fiscal year 2003 arising from this error was $0.2 million.

Errors related to accounting for acquisitions at our Business Services and Investment Services segments, the largest of which was the acquisition of OLDE in fiscal year 2000. Deferred taxes were not provided on the dates of acquisition for the book/tax basis differences for certain intangible assets. Additionally, an incorrect life has been used to amortize customer relationships for OLDE since the date of acquisition. As a result of these errors, goodwill was understated by $34.0 million at April 30, 2004 and intangible assets were overstated by $32.4 million. Additionally, deferred tax liabilities were understated by $55.7 million at April 30, 2004. Amortization of customer relationships was understated by $7.3 million in fiscal years 2004 and 2003, which is included in selling, general and administrative expenses. Our provision for income taxes was overstated by $15.2 million and $13.4 million in fiscal years 2004 and 2003, respectively, related to this error.

The cumulative understatement of retained earnings prior to fiscal year 2003 arising from this error was $14.3 million.

Upon determining the understatement of goodwill and the resulting change in the carrying values of the affected reporting units, we revisited each of the periods in which goodwill impairment testing was performed. This resulted in additional nondeductible impairment charges of $84.8 million related to the acquisition of OLDE and $1.7 million related to a reporting unit within the Business Services segment in fiscal year 2003.

Restatement adjustments pertaining to income taxes relate primarily to purchase accounting restatement adjustments described above.

The effect of the above adjustments on the consolidated financial statements is set forth in the tables in 2(C) below.

(C) >>> Notes 1, 4, 5, 6, 7, 8, 11, 15, 16, 17, 20, 21 and 22 have been restated to reflect the above described adjustments.

The restatements did not have any impact on our previously reported service revenues or on our compliance with any financial covenant under our lines of credit or other debt instruments.

Table of Contents

The following is a summary of the impact of the restatement described in 2(A) above on our consolidated statements of income and comprehensive income for the fiscal year ended April 30, 2005:

(in 000s, except per share amounts)

Year Ended April 30,	2005		
	As Previously Reported (1)	Adjustments (2)	Restated
Income taxes	$ 381,858	$ 11,947	$ 393,805
Net income	635,857	(11,947)	623,910
Basic earnings per share	$ 1.92	$ (0.04)	$ 1.88
Diluted earnings per share	1.88	(0.03)	1.85
Comprehensive income	$ 638,364	$ (11,947)	$ 626,417

(1) As reported in our Form 10-K/A filed on August 5, 2005 for the year ended April 30, 2005.

(2) Adjusted to reflect the restatement described in 2(A) above.

The following is a summary of the impact of the restatements on our consolidated statements of income and comprehensive income for the fiscal years ended April 30, 2004 and 2003:

(in 000s, except per share amounts)

Year Ended April 30,	2004					2003		
	As Previously Reported (1)	Adjustments (2)	As Previously Restated (3)	Adjustments (4)	Restated	As Previously Reported (1)	Adjustments (2)	Restated
Gains on sales of mortgage assets, net	$ 913,699	$ 4,598	$ 918,297	$	$ 918,297	$ 864,701	$ (37,574)	$ 827,127
Interest income	211,359	18,436	229,795		229,795	193,889	1,179	195,068
Total revenues	4,224,846	23,034	4,247,880		4,247,880	3,767,521	(36,395)	3,731,126
Cost of service revenues	1,787,089	7,412	1,794,501		1,794,501	1,623,601	2,336	1,625,937
Cost of other revenues	375,713	4,652	380,365		380,365	295,975	4,774	300,749
						35,777	86,474	122,251

Impairment of goodwill								
Selling, general and administrative	836,523	12,152	848,675		848,675	755,203	5,661	760,864
Total operating expenses	2,999,325	24,216	3,023,541		3,023,541	2,710,556	99,245	2,809,801
Operating income	1,225,521	(1,182)	1,224,339		1,224,339	1,056,965	(135,640)	921,325
Income before taxes	1,164,157	(1,182)	1,162,975		1,162,975	987,077	(131,513)	855,564
Income taxes	459,901	(12,534)	447,367	15,156	462,523	407,013	(29,064)	377,949
Net income	697,897	11,352	709,279	(15,156)	694,093	580,064	(102,449)	477,615
Basic earnings per share	$ 1.97	$ 0.03	$ 2.00	$ (0.04)	$ 1.96	$ 1.61	$ (0.28)	$ 1.33
Diluted earnings per share	1.93	0.03	1.96	(0.04)	1.92	1.58	(0.28)	1.30
Reclassification adjustment for gains included in income	$ (95,150)	$ (14,235)	$ (109,385)	$	$ (109,385)	$ (139,566)	$ 22,493	$ (117,073)
Comprehensive income	718,988	(2,883)	716,105	(15,156)	700,949	572,798	(79,956)	492,842

(1) As reported in our Form 10-K filed on July 2, 2004 for the year ended April 30, 2004. Amounts have been reclassified to conform to current year presentation. See discussion of reclassifications in note 1.

(2) Adjusted to reflect the restatement described in 2(B) above.

(3) As reported in our Form 10-K/A filed on August 5, 2005 for the year ended April 30, 2005.

(3)

Adjusted to reflect the restatement described in 2(A) above.	

Table of Contents

The following is a summary of the impact of the restatements on our consolidated balance sheets as of April 30, 2005 and 2004:

April 30,	2005			2004			(in 000s)
	As Previously Reported (1)	Adjustments (2)	Restated	As Previously Reported (3)	Adjustments (4)	Restated	Adjustments (1) (2)	Restated
Intangible assets, net	$ 247,092	$	$ 247,092	$ 325,829	$ (32,352)	$ 293,477	$	$ 293,477
Goodwill, net	1,015,947		1,015,947	959,418	34,049	993,467		993,467
Property and equipment, net	330,150		330,150	279,220	(5,917)	273,303		273,303
Other assets	287,543	(1,227)	286,316	308,714	(68,333)	240,381	1,095	241,476
Total assets	5,539,283	(1,227)	5,538,056	5,295,468	(62,736)	5,232,732	1,095	5,233,827
Accrued salaries, wages and payroll taxes	318,644		318,644	268,747	11,620	280,367		280,367
Accrued income taxes	349,298	25,876	375,174	405,668	8,200	413,868	16,251	430,119
Other noncurrent liabilities	430,919		430,919	382,168	(12,399)	369,769		369,769
Total liabilities	3,562,912	25,876	3,588,788	3,398,459	14,458	3,412,917	16,251	3,429,168
Accumulated other comprehensive income	68,718		68,718	57,953	8,258	66,211		66,211
Retained earnings	3,188,785	(27,103)	3,161,682	2,781,368	(85,452)	2,695,916	(15,156)	2,680,760
Total stockholders equity	1,976,371	(27,103)	1,949,268	1,897,009	(77,194)	1,819,815	(15,156)	1,804,659
Total liabilities and stockholders equity	5,539,283	(1,227)	5,538,056	5,295,468	(62,736)	5,232,732	1,095	5,233,827

(1) As reported in our Form 10-K/A filed on August 5, 2005 for the year ended April 30, 2005

(2) Adjusted to reflect the restatement described in 2(A) above.

(3) As reported in our Form 10-K filed on July 2, 2004 for the year ended April 30, 2004. Amounts have been reclassified to conform to current year presentation. See discussion of reclassifications in note 1.

(4) Adjusted to reflect the restatement described in 2(B) above.

The following is a summary of the impact of the restatement described in 2(A) above on our consolidated statements of cash flows for fiscal year ended April 30, 2005:

			(in 000s)
Year Ended April 30,	2005		
	As Previously Reported (1)	Adjustments (2)	Restated
Net income	$ 635,857	$ (11,947)	$ 623,910
Provision for deferred taxes on income	(42,345)	2,322	(40,023)
Accrued income taxes	(29,906)	9,625	(20,281)

(1) As reported in our Form 10-K/A filed on August 5, 2005 for the year ended April 30, 2005.

(2)

Adjusted to reflect the restatement described in 2(A) above.	

Table of Contents

The following is a summary of the impact of the restatements on our consolidated statements of cash flows for fiscal years ended April 30, 2004 and 2003:

(in 000s)

Year Ended April 30,	2004					2003		
	As Previously Reported (1)	Adjustments (2)	As Previously Restated (3)	Adjustments (4)	Restated	As Previously Reported (1)	Adjustments (2)	Restated
Net income	$ 697,897	$ 11,352	$ 709,249	$ (15,156)	$ 694,093	$ 580,064	$ (102,449)	$ 477,615
Depreciation and amortization	172,038	7,093	179,131		179,131	161,821	7,271	169,092
Provision for deferred taxes on income	11,459	(12,445)	(986)	(1,095)	(2,081)	10,574	(40,518)	(29,944)
Accretion of residual interests in securitizations	(168,030)	(18,436)	(186,466)		(186,466)	(145,165)	(1,178)	(146,343)
Impairment of residual interests in securitizations	30,661	(4,598)	26,063		26,063	54,111		54,111
Realized gain on sale of previously securitized residual interests	(40,689)		(40,689)		(40,689)	(130,881)	37,574	(93,307)
Impairment of goodwill						35,777	86,474	122,251
Accounts payable, accrued expenses and deposits	(105,737)	1,174	(104,563)		(104,563)	57,658	2,796	60,454
Accrued salaries, wages and payroll taxes	58,468	12,053	70,521		70,521	(42,772)	(139)	(42,911)
Accrued income taxes	93,710	60	93,770	16,251	110,021	99,715	12,107	111,822
Net cash provided by operating activities	856,210	(3,747)	852,463		852,463	691,926	(2,191)	689,735
Purchases of property and equipment, net	(127,573)	3,747	(123,826)		(123,826)	(150,897)	2,191	(148,706)
Net cash provided by (used in) investing activities	(131,133)	3,747	(127,386)		(127,386)	125,338	2,191	127,529

(1) As reported in our Form 10-K filed on July 2, 2004 for the year ended April 30, 2004. Amounts have

been reclassified to conform to current year presentation. See discussion of reclassifications in note 1.

(2) Adjusted to reflect the restatement described in 2(B) above.

(3) As reported in our Form 10-K/A filed on August 5, 2005 for the year ended April 30, 2005.

(4) Adjusted to reflect the restatement described in 2(A) above.

The restatement, described in 2(B) above, of our consolidated statement of stockholders equity resulted in an increase of $5.6 million to retained earnings as of April 30, 2002.

Table of Contents

NOTE 3: BUSINESS COMBINATIONS AND DISPOSALS

Significant acquisitions during fiscal years 2005, 2004 and 2003 are as follows. Results for each acquisition are included since the date of acquisition.

Business	Asset Acquired	Estimated Life		(in 000s) Asset Value at Acquisition
FISCAL YEAR 2005 >>>				
Non-accounting firm Business Services acquisitions	**Property and equipment**		**$**	**2,497**
	Goodwill			**9,666**
	Customer relationships	**10 years**		**7,730**
	Noncompete agreements	**15 years**		**100**
	Weighted average life	**10 years**	**$**	**19,993**
FISCAL YEAR 2004 >>>				
Former major franchise territories	Property and equipment		$	2,697
	Goodwill			205,313
	Customer relationships	10 years		18,167
	Noncompete agreements	3 years		17,069
	Weighted average life	7 years	$	243,246
Accounting firms	Goodwill		$	3,923
	Customer relationships	10 years		1,794
	Noncompete agreements	15 years		747
	Weighted average life	11 years	$	6,464
FISCAL YEAR 2003 >>>				
Accounting firms	Goodwill		$	2,404
		10 years		2,242

Customer relationships			
Noncompete agreements	15 years		728
Weighted average life	11 years	$	5,374

During fiscal year 2005, our Business Services segment acquired six businesses. Cash payments related to these acquisitions totaled $19.5 million, with additional cash payments of $0.1 million over the next five years. Goodwill recognized in these transactions is included in the Business Services segment and all but $3.8 million is deductible for tax purposes.

During fiscal year 2004, we made payments of $243.2 million related to the acquisition of primarily assets and stock in the franchise territories of ten former major franchisees. The customer relationships will be amortized based on estimated customer retention over ten years. The noncompete agreements will be amortized on a straight-line basis over three years. Goodwill recognized in these transactions is included in the Tax Services segment and all but $3.9 million is deductible for tax purposes.

During fiscal year 2004, we acquired three accounting firms. Cash payments related to these acquisitions totaled $6.2 million, with additional cash payments of $1.0 million over the next five years. The purchase agreements also provide for possible future contingent consideration of approximately $3.0 million. Goodwill recognized in these transactions is deductible for tax purposes and is included in the Business Services segment.

During fiscal year 2003, we acquired two accounting firms. Cash payments related to these acquisitions totaled $2.6 million, with additional cash payments of $2.8 million over the next five years. The purchase agreements also provide for possible future contingent consideration of approximately $0.3 million. Goodwill recognized in these transactions was $2.4 million, which is deductible for tax purposes and is included in the Business Services segment.

During fiscal years 2005, 2004 and 2003, we made other acquisitions which were accounted for as purchases with cash payments totaling $14.4 million, $7.9 million and $3.0 million, respectively. Their operations, which are not material, are included in the consolidated income statements since the date of acquisition.

Table of Contents

NOTE 4: EARNINGS PER SHARE

Basic earnings per share is computed using the weighted-average number of common shares outstanding. The dilutive effect of potential common shares outstanding is included in diluted earnings per share. The computations of basic and diluted earnings per share before change in accounting principle are as follows:

Diluted earnings per share excludes the impact of common shares issuable upon the lapse of certain restrictions or the exercise of options to purchase 1.2 million, 4.8 million, and 5.2 million shares of stock for 2005, 2004 and 2003, respectively, because the options exercise prices were greater than the average market price of the common shares and therefore, the effect would be antidilutive.

		(in 000s, except per share amounts)	
	Restated	Restated	Restated
Year Ended April 30,	**2005**	2004	2003
Net income before change in accounting principle	**$ 623,910**	$ 700,452	$ 477,615
Basic weighted average common shares	**331,612**	354,152	359,276
Dilutive potential shares from stock options and restricted stock	**6,012**	7,450	8,878
Convertible preferred stock	**1**	1	1
Dilutive weighted average common shares	**337,625**	361,603	368,155
Earnings per share:			
Basic	**$ 1.88**	$ 1.98	$ 1.33
Diluted	**1.85**	1.94	1.30

NOTE 5: MARKETABLE SECURITIES AVAILABLE-FOR-SALE

The amortized cost and market value of marketable securities classified as available-for-sale at April 30, 2005 and 2004 are summarized below:

								(in 000s)
	2005				2004 (Restated)			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses [1]	Market Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses [1]	Market Value
Municipal bonds	**$ 9,797**	**$ 172**	**$ (1)**	**$ 9,968**	$ 8,846	$ 27	$ (78)	$ 8,795
Common stock	**4,250**	**308**	**(129)**	**4,429**	4,661	450	(82)	5,029
Residual interests	**90,525**	**115,411**		**205,936**	85,100	125,873		210,973
	$ 104,572	**$ 115,891**	**$ (130)**	**$ 220,333**	$ 98,607	$ 126,350	$ (160)	$ 224,797

[1] Gross unrealized losses have been in a continuous

loss position for less than 12 months.

We monitor our available-for-sale investment portfolio for impairment and consider many factors in determining whether the impairment is deemed to be other-than-temporary. These factors include, but are not limited to, the length of time the security has had a market value less than the cost basis, the severity of the loss, our intent and ability to hold the security for a period of time sufficient for a recovery in value, recent events specific to the issuer or industry, external credit ratings and recent downgrades in such ratings.

Proceeds from the sales of available-for-sale securities were $26.2 million, $68.8 million and $156.6 million during fiscal years 2005, 2004 and 2003, respectively. Gross realized gains on those sales during fiscal years 2005, 2004 and 2003 were $15.8 million, $41.8 million and $93.9 million, respectively; gross realized losses were $0.3 million, $0.1 million and $0.7 million, respectively.

Contractual maturities of available-for-sale debt securities at April 30, 2005 occur at varying dates over the next five to ten years. Because expected maturities differ from contractual

Table of Contents

maturities due to the issuers rights to prepay certain obligations or the seller s rights to call certain obligations, the first call date, put date or auction date for municipal bonds and notes is considered the contractual maturity date.

NOTE 6: MORTGAGE BANKING ACTIVITIES

We originate mortgage loans and sell most non-prime loans the same day the loans are funded to Trusts. These Trusts meet the criteria of QSPEs and are therefore not consolidated. The sale is recorded in accordance with Statement of Financial Accounting Standards No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities (SFAS 140). The Trusts purchase the loans from us using five warehouse facilities we arrange. As a result of the whole loan sales to the Trusts, we remove the mortgage loans from our balance sheet and record the gain on the sale, cash and a beneficial interest in Trusts, which represents the ultimate expected outcome from the disposition of the loans. The beneficial interest in Trusts was $215.4 million and $153.8 million at April 30, 2005 and 2004, respectively.

The Trusts, as directed by their third-party beneficial interest holders, either sell the loans directly to third-party investors or back to us to pool the loans for securitization. The decision to complete a whole loan sale or a securitization is dependent on market conditions. If the Trusts choose to sell the mortgage loans, we receive cash for our beneficial interest in Trusts. In a securitization transaction, the Trusts transfer the loans to one of our consolidated subsidiaries, and we transfer our beneficial interest in Trusts and the loans to a securitization trust. The securitization trust meets the definition of a QSPE and is therefore not consolidated. The securitization trust issues bonds, which are supported by the cash flows from the pooled loans, to third-party investors. We retain an interest in the loans in the form of a residual interest and usually assume the first risk of loss for credit losses in the loan pool. As the cash flows of the underlying loans and market conditions change, the value of our residual interest may also change, resulting in either additional unrealized gains or impairment of the value of the residual interests. These residual interests are classified as trading securities. We held no trading residual interests as of April 30, 2005 and 2004, as all trading residuals had been securitized.

To accelerate the cash flows from our residual interests, we securitize the majority of our residual interests in NIM transactions. In a NIM transaction, the residual interests are transferred to another QSPE (NIM trust), which then issues bonds to third-party investors. The proceeds from the bonds are returned to us as payment for the residual interests. The bonds are secured by the pooled residual interests and are obligations of the NIM trust. We retain a subordinated interest in the NIM trust, and receive cash flows on our residual interest generally after the bonds issued to the third-party investors are paid in full. Residual interests retained from NIM securitizations may also be bundled and sold in a subsequent securitization. These residual interests are classified as available-for-sale securities. See note 5.

Prime mortgage loans are sold in whole loan sales, servicing released, to third-party buyers.

Activity related to residual interests in securitizations consists of the following:

		(in 000s)
		Restated
April 30,	**2005**	2004
Balance, beginning of year	**$ 210,973**	$ 264,337
Additions (resulting from NIM transactions)	**16,914**	9,007
Cash received	**(136,045)**	(193,606)
Cash received on sales of residual interests	**(16,485)**	(53,391)
Accretion	**137,610**	184,253
Impairments of fair value	**(12,235)**	(26,063)
Other		(6,203)
Change in unrealized holding gains arising during the period	**5,204**	32,639
Balance, end of year	**$ 205,936**	$ 210,973

We sold $31.0 billion and $23.2 billion of mortgage loans in whole loan sales to the Trusts and other buyers during the years ended April 30, 2005 and 2004, respectively. Gains totaling $772.1 million and $915.6 million were recorded on these sales, respectively.

Residual interests initially valued at $115.7 million and $328.0 million were securitized in NIM transactions during the years ended April 30, 2005 and 2004, respectively. Net cash proceeds of $98.7 million and $310.4 million were received from the NIM transactions for the years ended April 30, 2005 and 2004, respectively. Total net additions to residual interests for the years ended April 30, 2005 and 2004 were $16.9 million and $9.0 million, respectively.

Cash flows from the residual interests of $136.0 million and $193.6 million were received from the securitization trusts for the years ended April 30, 2005 and 2004, respectively. An additional $16.5 million and $53.4 million was received during fiscal years 2005 and 2004, respectively, as a result of the sale of previously securitized residuals, as discussed below. Cash

Table of Contents

received on the residual interests is included in investing activities on the consolidated statements of cash flows.

During fiscal year 2005, we completed sales of previously securitized residual interests and recorded gains of $15.4 million. We received cash proceeds of $16.5 million from the transactions and retained a $21.5 million residual interest. These sales accelerate cash flows from the residual interests, effectively realizing previously recorded unrealized gains included in other comprehensive income.

During fiscal year 2004, we completed sales of previously securitized residual interests and recorded gains of $40.7 million. We received cash proceeds of $53.4 million from the transaction and retained a residual interest of $1.5 million.

Residual interests are classified as available-for-sale securities and are therefore reported at fair value. Gross unrealized holding gains represent the write-up of residual interests as a result of lower interest rates, loan losses or loan prepayments to date than most recently projected in our valuation models.

Aggregate net unrealized gains on residual interests, which had not yet been accreted into income, totaled $115.4 million and $125.9 million at April 30, 2005 and 2004, respectively. These unrealized gains are recorded net of deferred taxes in other comprehensive income, and may be recognized in income in future periods either through accretion or upon further securitization of the related residual interest.

Included in prepaid expenses and other current assets on our consolidated balance sheets as of April 30, 2005 and 2004, is $231.0 million and $212.3 million, respectively, in default advances, escrow advances and principal and interest advances related to the servicing of non-prime loans.

Activity related to mortgage servicing rights consists of the following:

		(in 000s)
April 30,	**2005**	2004
Balance, beginning of year	**$ 113,821**	$ 99,265
Additions	**137,510**	84,274
Amortization	**(84,191)**	(69,718)
Impairments of fair value	**(526)**	
Balance, end of year	**$ 166,614**	$ 113,821

Estimated amortization of MSRs for fiscal years 2006, 2007, 2008, 2009 and 2010 is $89.7 million, $49.8 million, $20.0 million, $5.8 million and $1.3 million, respectively. The carrying value of MSRs approximates fair value at April 30, 2005 and 2004.

The key assumptions we used to originally estimate the cash flows and values of our residual interests are as follows:

	2005	2004	2003
Estimated credit losses	**2.72%**	3.63%	3.60%
Discount rate	**25.00%**	16.25%	13.03%
Variable returns to third-party beneficial interest holders	**LIBOR forward curve at valuation date**		

The key assumptions we used to estimate the cash flows and values of our residual interests and MSRs at April 30 are as follows:

April 30,	**2005**	2004
Estimated credit losses residual interests	**3.03%**	4.16%
Discount rate residual interests	**21.01%**	19.09%
Discount rate MSRs	**12.80%**	12.80%

Variable returns to third-party beneficial interest holders	**LIBOR forward curve at valuation date**

We originate both adjustable and fixed rate mortgage loans. A key assumption used to estimate the cash flows and values of the residual interests is average annualized prepayment speeds. Prepayment speeds include voluntary prepayments, involuntary prepayments and scheduled principal payments. Prepayment rate assumptions are as follows:

	Prior to Penalty Expiration	Months Outstanding Without Prepayment Penalty	
		Zero - 3 Remaining Life	
Adjustable rate mortgage loans:			
With prepayment penalties	30%	70%	44%
Without prepayment penalties	36%	53%	40%
Fixed rate mortgage loans:			
With prepayment penalties	29%	46%	42%

For fixed rate mortgages without prepayment penalties, we use an average prepayment rate of 35% over the life of the loans. Prepayment rate is projected based on actual paydown including voluntary, involuntary and scheduled principal payments.

Expected static pool credit losses are as follows:

	Mortgage Loans Securitized in				
	2005	2004	2003	2002	Prior
As of:					
April 30, 2005	**2.83%**	**2.30%**	**2.08%**	**2.53%**	**4.52%**
April 30, 2004		3.92%	4.35%	3.58%	4.46%

Table of Contents

Static pool credit losses are calculated by summing the actual and projected future credit losses and dividing them by the original balance of each pool of assets.

At April 30, 2005, the sensitivities of the current fair value of the residual interests and MSRs to 10% and 20% adverse changes in the above key assumptions are presented in the following table. These sensitivities are hypothetical and should be used with caution. As the figures indicate, changes in fair value based on a 10% variation in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also in this table, the effect of a variation of a particular assumption on the fair value of the retained interest is calculated without changing any other assumptions; in reality, changes in one factor may result in changes in another, which might magnify or counteract the sensitivities.

(in 000s)

	Residential Mortgage Loans		
	NIM Residuals	Beneficial interest in Trusts	MSRs
Carrying amount/fair value of residuals	**$ 205,936**	**$ 215,367**	**$ 166,614**
Weighted average life (in years)	**1.3**	**2.3**	**1.2**
$ impact on fair value:			
Prepayments (including defaults):			
Adverse 10%	**$ (2,458)**	**$ (12,950)**	**$ (23,801)**
Adverse 20%	**8,293**	**(20,572)**	**(40,525)**
Credit losses:			
Adverse 10%	**$ (32,731)**	**$ (6,962)**	**Not applicable**
Adverse 20%	**(64,368)**	**(13,917)**	**Not applicable**
Discount rate:			
Adverse 10%	**$ (5,158)**	**$ (5,492)**	**$ (2,175)**
Adverse 20%	**(10,023)**	**(10,730)**	**(4,301)**
Variable interest rates:			
Adverse 10%	**$ (9,991)**	**$ (36,552)**	**Not applicable**
Adverse 20%	**(20,700)**	**(73,646)**	**Not applicable**

Mortgage loans which have been securitized at April 30, 2005 and 2004, past due sixty days or more and the related net credit losses are presented below:

(in 000s)

Total Principal Amount of Loans Outstanding		Principal Amount of Loans 60 Days or More Past Due		Net Credit Losses (net of recoveries)	
April 30,		April 30,		Year Ended April 30,	
2005	2004	**2005**	2004	**2005**	2004

Residual mortgage loans	**$ 10,300,805**	$ 15,732,953	**$ 1,128,376**	$ 1,286,069	**$ 132,015**	$ 159,253
Warehouse	**6,742,387**	3,244,141				
Total loans	**$ 17,043,192**	$ 18,977,094	**$ 1,128,376**	$ 1,286,069	**$ 132,015**	$ 159,253

NOTE 7: GOODWILL AND INTANGIBLE ASSETS

Changes in the carrying amount of goodwill by segment for the year ended April 30, 2005, are as follows:

(in 000s)

	Restated 2004	Additions	Other	**2005**
Tax Services	$ 350,044	$ 10,175	$ 562	**$ 360,781**
Mortgage Services	152,467			**152,467**
Business Services	317,002	11,513	230	**328,745**
Investment Services	173,954			**173,954**
	$ 993,467	$ 21,688	$ 792	**$ 1,015,947**

Goodwill and other indefinite life intangible assets were tested for impairment in the fourth quarter of fiscal year 2005. An independent valuation firm was engaged to assist in the test for selected reporting units. No impairment existed at any of our reporting units during fiscal year 2005 or 2004. In light of unsettled market conditions and the severe decline of comparable business valuations in the investment industry, we engaged an independent valuation firm in fiscal year 2003 to perform the goodwill impairment test on the Investment Services segment in accordance with SFAS 142. Based on this valuation, a goodwill impairment charge of $108.8 million was recorded during fiscal year 2003. Also during 2003, our annual impairment test resulted in an impairment of $13.5 million for a reporting unit within the Business Services segment. No other impairments were identified.

The goodwill and intangible assets previously included in Corporate as of April 30, 2004 have been reclassified to the Tax Services segment to more appropriately reflect our segment reporting.

Table of Contents

The components of intangible assets are as follows:

(in 000s)

April 30,	2005			2004 (Restated)		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Tax Services:						
Customer relationships	**$ 23,717**	**$ (7,207)**	**$ 16,510**	$ 19,011	$ (3,377)	$ 15,634
Noncompete agreements	**17,677**	**(11,608)**	**6,069**	17,364	(5,724)	11,640
Business Services:						
Customer relationships	**130,585**	**(68,433)**	**62,152**	121,229	(56,313)	64,916
Noncompete agreements	**27,796**	**(11,274)**	**16,522**	27,424	(8,670)	18,754
Trade name amortizing	**1,450**	**(995)**	**455**	1,450	(926)	524
Trade name non-amortizing	**55,637**	**(4,868)**	**50,769**	55,637	(4,868)	50,769
Investment Services:						
Customer relationships	**293,000**	**(198,385)**	**94,615**	293,000	(161,760)	131,240
	$ 549,862	**$ (302,770)**	**$ 247,092**	$ 535,115	$ (241,638)	$ 293,477

Amortization of intangible assets for the years ended April 30, 2005, 2004 and 2003 was $61.4 million, $61.5 million and $51.8 million, respectively. Estimated amortization of intangible assets for fiscal years 2006, 2007, 2008, 2009 and 2010 is $60.6 million, $51.6 million, $34.4 million, $11.7 million and $9.8 million, respectively.

NOTE 8: PROPERTY AND EQUIPMENT

The components of property and equipment are as follows:

(in 000s)

April 30,	**2005**	Restated 2004
Land	**$ 23,716**	$ 29,925
Buildings	**67,031**	71,923
Computers and other equipment	**568,986**	498,373
Capitalized software	**153,794**	137,784
Leasehold improvements	**175,048**	114,537
	988,575	852,542
Less: Accumulated depreciation and amortization	**658,425**	579,239
	$ 330,150	$ 273,303

Depreciation and amortization expense for 2005, 2004 and 2003 was $122.5 million, $117.6 million and $117.3 million, respectively. Included in depreciation and amortization expense is amortization of capitalized software of $23.6 million, $28.2 million and $29.9 million, respectively.

As of April 30, 2005 and 2004, we have property and equipment under capital lease with a cost of $16.8 million and $14.1 million, respectively, and accumulated depreciation of $4.2 million and $2.5 million, respectively. We have

an agreement to lease real estate and buildings under a noncancelable capital lease for the next 16 years with an option to purchase after three years.

NOTE 9: DERIVATIVE INSTRUMENTS

A summary of our derivative instruments as of April 30, 2005 is as follows:

(in 000s)

	Asset (Liability) Balance at April 30,		Gain (Loss) in the Year Ended April 30,		
	2005	2004	**2005**	2004	2003
Interest rate swaps	**$ (1,325)**	$	**$ 47,192**	$ (2,703)	$ (5,194)
Interest rate caps	**12,458**		**(106)**		
Rate-lock equivalents	**801**	(1,386)	**2,187**	(13,917)	6,158
Prime short sales	**(805)**	2,080	**(2,420)**	4,663	(5,105)
	$ 11,129	$ 694	**$ 46,853**	$ (11,957)	$ (4,141)

We use interest rate swaps and forward loan sale commitments to reduce interest rate risk associated with non-prime loans. We generally enter into interest rate swap arrangements related to existing loan applications with rate-lock commitments and, beginning at the end of our second quarter, for rate-lock commitments we expect to make in the next 30 days. Interest rate swaps represent an agreement to exchange interest rate payments, effectively converting our fixed financing costs into a floating rate. These contracts increase in value as rates rise and decrease in value as rates fall.

We enter into interest rate caps to mitigate interest rate risk associated with mortgage loans that will be securitized and residual interests that are classified as trading securities because they will be sold in a subsequent NIM transaction. The caps enhance the marketability of the securitization and NIM

Table of Contents

transactions. An interest rate cap represents a right to receive cash if interest rates rise above a contractual strike rate, its value therefore increases as interest rates rise. The interest rate used in our interest rate caps is based on LIBOR.

We enter into forward loan commitments to sell our non-prime mortgage loans to manage interest rate risk. Forward loan sale commitments for non-prime loans are not considered derivative instruments and are therefore not recorded in our financial statements. The notional value and the contract value of the forward commitments at April 30, 2005 were $8.7 billion and $8.9 billion, respectively. Most of our forward commitments give us the option to under- or over-deliver by five to ten percent.

We, in the normal course of business, enter into commitments with our customers to fund both non-prime and prime mortgage loans for specified periods of time at locked-in interest rates. These derivative instruments represent commitments to fund loans (rate-lock equivalents). The fair value of non-prime loan commitments is calculated using a binomial option model. We adopted SEC Staff Accounting Bulletin No. 105, Application of Accounting Principles to Loan Commitments, as of March 31, 2004. Upon adoption, we no longer record an asset for non-prime commitments to fund loans. The fair value of prime loan commitments is calculated based on the current market pricing of short sales of FNMA, FHLMC and GNMA mortgage-backed securities and the coupon rates of the eligible loans.

We sell short FNMA, FHLMC and GNMA mortgage-backed securities to reduce our risk related to our commitments to fund fixed-rate prime loans. The position on certain or all of the fixed-rate mortgage loans is closed approximately 10-15 days prior to standard Public Securities Association (PSA) settlement dates.

We entered into an agreement with Household (subsequently acquired by HSBC) during fiscal year 2003, whereby we waived our right to purchase any participation interests in and receive license fees relating to RALs during the period January 1 through April 30, 2003. In consideration for waiving these rights, we received a series of payments from Household, subject to certain adjustments based on delinquency rates on RALs made by Household through December 31, 2003. This adjustment provision was accounted for as a derivative and was marked-to-market monthly through December 31, 2003. Accordingly, during fiscal year 2004, we recognized $6.5 million of revenues related to this instrument. The final settlement in accordance with this agreement was received in January 2004.

None of our derivative instruments qualify for hedge accounting treatment as of April 30, 2005 and 2004.

NOTE 10: LONG-TERM DEBT

The components of long-term debt and capital lease obligations are as follows:

		(in 000s)
April 30,	**2005**	2004
Senior Notes, 8 1/2%, due April 2007	**$ 498,825**	$ 498,225
Senior Notes, 5.125%, due October 2014	**397,766**	
Business Services acquisition obligations, due from May 2005 to January 2008	**38,022**	60,768
Capital lease obligations	**13,550**	12,512
Other obligations	**455**	
Senior Notes, 6 3/4%, due November 2004		249,975
	948,618	821,480
Less: Current portion	**25,545**	275,669
	$ 923,073	$ 545,811

On October 26, 2004, we issued $400.0 million of 5.125% Senior Notes under a shelf registration statement. The Senior Notes are due October 30, 2014, and are not redeemable by the bondholders prior to maturity. The net proceeds of this transaction were used to repay the $250.0 million in 6 3/4% Senior Notes. The remaining proceeds were used for working capital, capital expenditures, repayment of other debt and other general corporate purposes.

On April 13, 2000, we issued $500.0 million of 8 1/2% Senior Notes under a shelf registration statement. The Senior Notes are due April 15, 2007, and are not redeemable prior to maturity. The net proceeds of this transaction were used to repay a portion of the short-term borrowings that initially funded the acquisition of OLDE Financial Corporation and Financial Marketing Services, Inc.

On October 21, 1997, we issued $250.0 million of 6 3/4% Senior Notes under a shelf registration statement. The Senior Notes were due November 1, 2004, and the net proceeds were used to repay short-term borrowings, which initially funded the acquisition of Option One.

We have obligations related to Business Services acquisitions of $38.0 million and $60.8 million at April 30, 2005 and 2004, respectively. The current portion of these amounts is included in the current portion of long-term debt on the consolidated balance sheet. The long-term portions are due from May 2006 to January 2008.

We have a capitalized lease obligation of $13.6 million at April 30, 2005 that is collateralized by land and buildings. The obligation is due in 16 years.

Table of Contents

The aggregate payments required to retire long-term debt are $25.5 million, $511.5 million, $1.0 million, $0.5 million, $0.6 million and $409.5 million in 2006, 2007, 2008, 2009, 2010 and beyond, respectively.

Based upon borrowing rates currently available for indebtedness with similar terms, the fair value of long-term debt was approximately $981.8 million and $893.5 million at April 30, 2005 and 2004, respectively.

NOTE 11: OTHER NONCURRENT LIABILITIES

We have deferred compensation plans that permit directors and certain employees to defer portions of their compensation and accrue income on the deferred amounts. Their deferred compensation and our matching amounts have been accrued. Included in other noncurrent liabilities are $115.4 million and $93.4 million at April 30, 2005 and 2004, respectively, reflecting the liability under these plans. We purchase whole-life insurance contracts on certain director and employee participants to recover distributions made or to be made under the plans and record the cash surrender value of the policies in other noncurrent assets.

We have recorded $213.4 million and $178.7 million for obligations to certain government agencies at April 30, 2005 and 2004, respectively.

In connection with our acquisition of the non-attest assets of McGladrey & Pullen, LLP (M&P) in August 1999, we assumed certain pension liabilities related to M&P s retired partners. We make payments in varying amounts on a monthly basis. Included in other noncurrent liabilities at April 30, 2005 and 2004 are $15.9 million and $17.5 million, respectively, related to this liability.

NOTE 12: STOCKHOLDERS EQUITY

We are authorized to issue 6.0 million shares of Preferred Stock, without par value. At April 30, 2005, we had 5.6 million shares of authorized but unissued Preferred Stock. Of the unissued shares, 0.6 million shares have been designated as Participating Preferred Stock in connection with our shareholder rights plan.

On March 8, 1995, our Board of Directors authorized the issuance of a series of 0.5 million shares of nonvoting Preferred Stock designated as Convertible Preferred Stock, without par value. In April 1995, 0.4 million shares of Convertible Preferred Stock were issued in connection with an acquisition. In addition, options to purchase 51,828 shares of Convertible Preferred Stock were issued as a part of the acquisition and 37,399 shares of Convertible Preferred Stock were issued in connection with these options. Each share of Convertible Preferred Stock became convertible on April 5, 1998 into sixteen shares of Common Stock of the Company (, subject to adjustment upon certain events. The holders of the Convertible Preferred Stock are not entitled to receive dividends paid in cash, property or securities and, in the event of any dissolution, liquidation or wind-up of the Company, will share ratably with the holders of Common Stock then outstanding in the assets of the Company after any distribution or payments are made to the holders of Participating Preferred Stock or the holders of any other class or series of stock of the Company with preference over the Common Stock.

We grant restricted shares to selected employees under our stock-based compensation plans. Upon the grant of restricted shares, unearned compensation is recorded as an offset to additional paid in capital and is amortized as compensation expense over the restricted period. The balance of unearned compensation related to restricted shares at April 30, 2005 and 2004 was $23.7 million and $15.0 million, respectively.

NOTE 13: STOCK-BASED COMPENSATION AND RETIREMENT BENEFITS

We have four stock-based compensation plans: the 2003 Long-Term Executive Compensation Plan, the 1989 Stock Option Plan for Outside Directors, the 1999 Stock Option Plan for Seasonal Employees, and the 2000 ESPP. The shareholders have approved all of our stock-based compensation plans.

The 2003 Plan replaced the 1993 Long-Term Executive Compensation Plan, effective July 1, 2003. The 1993 Plan terminated at that time, except with respect to outstanding awards thereunder. The shareholders had approved the 1993 Plan in September 1993 to replace the 1984 Long-Term Executive Compensation Plan, which terminated at that time except with respect to outstanding awards thereunder. Under the 2003 and 1989 plans, options may be granted to selected employees and outside directors to purchase our Common Stock for periods not exceeding 10 years at a price that is not less than 100% of fair market value on the date of the grant.

Options granted under the 2003 Plan are exercisable either (1) starting one year after the date of the grant, (2) starting one, two or three years after the date of the grant on a cumulative basis at the annual rate of $33^1/_3$ % of the total number of option shares, or (3) starting three years after the date of the grant on a cumulative basis at the rate of

40%, 30%,

Table of Contents

and 30% over the following three years. In addition, certain option grants have accelerated vesting provisions based on our stock price reaching specified levels.

Options granted under the 1989 Plan for Outside Directors prior to June 30, 2004 are exercisable starting one year after the date of grant on a cumulative basis at an annual rate of $33^1/_3$ % of the total number of option shares. Beginning with the grant on June 30, 2004, options granted under this Plan are fully vested and immediately exercisable as of the date of grant.

Under the 2003 and 1989 plans, restricted shares of our common stock may be granted to selected employees. Restricted shares granted vest either (1) starting one or three years after the grant on a cumulative basis at an annual rate of $33^1/_3$ % of the total number of shares, or (2) at the end of three years.

The 1999 Stock Option Plan for Seasonal Employees provided for the grant of options on June 30, 2004, 2003 and 2002 at the market price on the date of the grant. The options are exercisable during September through November in each of the two years following the calendar year of the grant, subject to certain conditions.

Changes during the years ended April 30, 2005, 2004 and 2003 under the stock-based compensation plans were as follows:

(shares in 000s)

	2005		2004		2003	
	Shares	**Weighted-Average Exercise Price**	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Options outstanding, beginning of year	**28,964**	**$ 17.93**	31,544	$ 16.07	31,820	$ 13.17
Options granted	**7,604**	**23.86**	7,488	22.03	10,728	22.16
Options exercised	**(6,959)**	**18.62**	(7,854)	14.56	(10,196)	12.33
Options expired/cancelled	**(2,506)**	**22.21**	(2,214)	17.26	(808)	17.27
Options outstanding, end of year	**27,103**	**19.02**	28,964	17.93	31,544	16.07
Shares exercisable, end of year	**13,268**	**15.89**	13,336	15.39	13,672	12.61
Restricted shares granted	**980**	**23.89**	1,028	21.97	90	22.32
Restricted shares vested	**352**	**21.66**	144	11.90	126	10.51
Restricted shares outstanding, end of year	**1,554**	**23.20**	1,020	21.96	200	14.58
Shares reserved for future option or restricted stock grants, end of year	**9,889**		9,880		14,563	

A summary of stock options outstanding and exercisable at April 30, 2005 follows:

(shares in 000s)

	Outstanding			Exercisable	
	Number Outstanding	Weighted-Average Remaining	Weighted-Average	Number Exercisable	Weighted-Average

		at April 30	Contractual Life	Exercise Price	at April 30	Exercise Price
$8.06	**10.95**	**3,480**	**4 years**	**$ 9.08**	**3,426**	**$ 9.08**
$11.06	**13.91**	**2,462**	**4 years**	**12.99**	**2,457**	**12.99**
$16.05	**19.98**	**5,849**	**7 years**	**16.67**	**3,006**	**16.73**
$20.00	**23.16**	**7,966**	**8 years**	**22.23**	**4,161**	**22.02**
$23.50	**29.48**	**7,346**	**9 years**	**24.15**	**218**	**27.04**
		27,103			**13,268**	

The ESPP provides the option to purchase shares of our Common Stock through payroll deductions to a majority of the employees of our subsidiaries. The purchase price of the stock is 90% of the lower of either the fair market value of our Common Stock on the first trading day within the Option Period or on the last trading day within the Option Period. The Option Periods are six-month periods beginning January 1 and July 1 each year. During fiscal years 2005 and 2004, 300,976 and 254,492 shares, respectively, were purchased under the ESPP out of a total authorized 6.0 million shares.

During fiscal years 2005 and 2004, we recorded compensation expense under the fair value method using the Black-Scholes option-pricing model on the date of the grant. The pro forma effect on fiscal year 2003 is disclosed in note 1. The following weighted-average assumptions and fair values were used for

Table of Contents

stock option grants and ESPP options during the following periods:

Year Ended April 30,	**2005**	2004	2003
Stock option grants management:			
Risk-free interest rate	**3.86%**	2.64%	3.82%
Expected life	**5 years**	5 years	5 years
Expected volatility	**32.07%**	31.13%	29.30%
Dividend yield	**1.84%**	1.63%	1.59%
Weighted average fair value	**$ 5.87**	$ 5.01	$ 5.12
Stock option grants seasonal:			
Risk-free interest rate	**2.60%**	1.21%	2.82%
Expected life	**2 years**	2 years	2 years
Expected volatility	**27.65%**	31.97%	28.71%
Dividend yield	**1.85%**	1.66%	1.39%
Weighted average fair value	**$ 3.29**	$ 3.03	$ 2.96
ESPP options:			
Risk-free interest rate	**2.17%**	.97%	1.45%
Expected life	**6 months**	6 months	6 months
Expected volatility	**21.18%**	38.14%	44.38%
Dividend yield	**1.82%**	1.55%	1.60%
Weighted average fair value	**$ 3.84**	$ 4.98	$ 4.51

We have 401(k) defined contribution plans covering all full-time employees following the completion of an eligibility period. Our contributions to these plans are discretionary and totaled $33.4 million, $28.9 million and $20.7 million for fiscal years 2005, 2004 and 2003, respectively.

NOTE 14: SHAREHOLDER RIGHTS PLAN

On July 25, 1998, the rights under a shareholder rights plan, adopted by our Board of Directors on March 25, 1998, became effective. The 1998 plan was adopted to deter coercive or unfair takeover tactics and to prevent a potential acquirer from gaining control of the Company without offering a fair price to all of our stockholders. Under the 1998 plan, a dividend of one right (a Right) per share was declared and paid on each share of our Common Stock outstanding on July 25, 1998. Rights automatically attach to shares issued after such date.

Under the 1998 plan, a Right becomes exercisable when a person or group of persons acquires beneficial ownership of 15% or more of the outstanding shares of our Common Stock without the prior written approval of our Board of Directors (an Unapproved Stock Acquisition), and at the close of business on the tenth business day following the commencement of, or the public announcement of an intent to commence, a tender offer that would result in an Unapproved Stock Acquisition. We may, prior to any Unapproved Stock Acquisition, amend the plan to lower such 15% threshold to not less than the greater of (1) any percentage greater than the largest percentage of beneficial ownership by any person or group of persons then known by the Company, and (2) 10% (in which case the acquisition of such lower percentage of beneficial ownership then constitutes an Unapproved Stock Acquisition and the Rights become exercisable). When exercisable, the registered holder of each Right may purchase from the Company one four-hundredth of a share of a class of our Participating Preferred Stock, without par value, at a price of $53.75, subject to adjustment. The registered holder of each Right then also has the right (the Subscription Right) to purchase for the exercise price of the Right, in lieu of shares of Participating Preferred Stock, a number of shares of our Common Stock having a market value equal to twice the exercise price of the Right. Following an Unapproved Stock Acquisition, if we are involved in a merger, or 50% or more of our assets or earning power are sold, the registered holder of each Right has the right (the Merger Right) to purchase for the exercise price of the Right a number of shares of the common stock of the surviving or purchasing company having a market value equal to twice the exercise price of the Right.

After an Unapproved Stock Acquisition, but before any person or group of persons acquires 50% or more of the outstanding shares of our Common Stock, the Board of Directors may exchange all or part of the then outstanding and exercisable Rights for Common Stock at an exchange ratio of one share of Common Stock per Right (the Exchange). Upon any such Exchange, the right of any holder to exercise a Right terminates. Upon the occurrence of any of the events giving rise to the exercisability of the Subscription Right or the Merger Right or the ability of the Board of Directors to effect the Exchange, the Rights held by the acquiring person or group under the new plan will become void as they relate to the Subscription Right, the Merger Right or the Exchange.

We may redeem the Rights at a price of $.0003125 per Right at any time prior to the earlier of (1) an Unapproved Stock

Table of Contents

Acquisition, or (2) the expiration of the rights. The Rights under the plan will expire on March 25, 2008, unless extended by the Board of Directors. Until a Right is exercised, the holder thereof, as such, will have no rights as a stockholder of the Company, including the right to vote or to receive dividends. The issuance of the Rights alone has no dilutive effect and does not affect reported earnings per share.

NOTE 15: INCOME TAXES

The components of income upon which domestic and foreign income taxes have been provided are as follows:

			(in 000s)
		Restated	Restated
Year Ended April 30,	**2005**	2004	2003
Domestic	**$ 1,013,844**	$ 1,150,450	$ 844,565
Foreign	**3,871**	12,525	10,999
	$ 1,017,715	$ 1,162,975	$ 855,564

Deferred income tax provisions (benefits) reflect the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. The current and deferred components of taxes on income are as follows:

			(in 000s)
	Restated	Restated	Restated
Year Ended April 30,	**2005**	2004	2003
Current:			
Federal	**$ 379,907**	$ 382,865	$ 361,676
State	**53,452**	77,112	40,964
Foreign	**469**	4,627	5,253
	433,828	464,604	407,893
Deferred:			
Federal	**(37,681)**	(1,880)	(27,610)
State	**(1,433)**	(197)	(1,646)
Foreign	**(909)**	(4)	(688)
	(40,023)	(2,081)	(29,944)
Total provision for income taxes before change in accounting principle	**393,805**	462,523	377,949
Income tax on cumulative effect of change in accounting principle		(4,031)	
Income tax included in comprehensive income	**(3,991)**	(3,387)	(1,387)
Total income taxes	**$ 389,814**	$ 455,105	$ 376,562

The following table reconciles the provision for income taxes at the federal statutory rate of 35% to income tax expense:

Year Ended April 30,	**Restated 2005**	Restated 2004	(dollars in 000s) Restated 2003
Statutory tax	**$ 356,200**	$ 407,041	$ 299,447
Increases in income taxes resulting from:			
State income taxes, net of Federal income tax benefit	**37,507**	41,493	24,093
Impairment of non-deductible goodwill			42,788
Other	**98**	13,989	11,621
Total income tax expense	**$ 393,805**	$ 462,523	$ 377,949
Effective tax rate	**38.7%**	39.8%	44.2%

The components of deferred taxes are as follows:

April 30,	**Restated 2005**	(in 000s) Restated 2004
Gross deferred tax assets:		
Accrued expenses	**$ 53,006**	$ 55,643
Allowance for credit losses and related reserves	**35,116**	23,099
Net operating losses	**3,524**	270
Current	**91,646**	79,012
Residual interest income	**129,323**	114,743
Deferred and stock-based compensation	**61,111**	34,724
Property and equipment	**33,767**	6,768
Net operating losses	**20,018**	23,661
Noncurrent	**244,219**	179,896
	335,865	258,908
Valuation allowance	**(20,354)**	(23,227)
	315,511	235,681
Gross deferred tax liabilities:		
Prepaid expenses and revenue deferred for tax	**(13,454)**	(15,040)
Current	**(13,454)**	(15,040)
Mortgage servicing rights	**(61,190)**	(38,005)
Intangible assets	**(101,945)**	(87,728)
Noncurrent	**(163,135)**	(125,733)

Net deferred tax assets	**$ 138,922**	$ 94,908

Table of Contents

We believe the net deferred tax asset at April 30, 2005 of $138.9 million is realizable. We have federal taxable income in excess of $2.3 billion and substantial state taxable income in the carry-back period, as well as a history of growth in earnings and prospects for continued earnings growth.

As of April 30, 2005, we had net operating loss carryforwards for tax purposes in various states and foreign countries of approximately $363.6 million. If not used, these carryforwards will expire in varying amounts during fiscal years 2006 through 2024.

We intend to indefinitely reinvest foreign earnings, therefore, a provision has not been made for income taxes which might be payable upon remittance of such earnings. Moreover, due to the availability of foreign income tax credits, management believes the amount of federal income taxes would be immaterial in the event foreign earnings were repatriated.

We have not reevaluated our position with respect to the indefinite reinvestment of foreign earnings to take into account the possible election of the repatriation provisions contained in the American Jobs Creation Act of 2004. The status of our evaluation of these provisions is described in the following section.

AMERICAN JOBS CREATION ACT OF 2004 >>> The American Jobs Creation Act of 2004 (the Act), enacted on October 22, 2004, provides for a temporary 85% dividends received deduction on certain foreign earnings repatriated during a one-year period. The deduction would result in an approximate 5.25% federal tax rate on any repatriated earnings. To qualify for the deduction, the earnings must be reinvested in the U.S. pursuant to a domestic reinvestment plan established by a company s chief executive officer and approved by the company s board of directors. Certain other criteria in the Act must be satisfied as well. Our one-year period during which the qualifying distributions can be made ends on December 31, 2005.

We have begun our evaluation of the effects of the Act, but do not expect to be able to complete this evaluation until additional clarifying language on key elements of the Act is issued. As of April 30, 2005, we have not provided deferred taxes on foreign earnings because we intended to indefinitely reinvest such earnings outside the U.S. Whether we will ultimately take advantage of this provision depends on our review of the Act and any additional guidance provided and we are therefore currently uncertain as to the impact, if any, this matter will have on our consolidated financial statements, and are unable to estimate the amount of earnings we may repatriate.

NOTE 16: SUPPLEMENTAL CASH FLOW INFORMATION

We made the following cash payments:

			(in 000s)
Year Ended April 30,	**2005**	2004	2003
Income taxes paid	**$ 437,427**	$ 331,635	$ 247,057
Interest paid	**82,535**	84,551	84,094

We characterized the following as non-cash investing activities:

			(in 000s)
		Restated	Restated
Year Ended April 30,	**2005**	2004	2003
Additions to residual interests	**$ 16,914**	$ 9,007	$ 753
Residual interest mark-to-market	**95,929**	167,065	9,176

NOTE 17: COMMITMENTS, CONTINGENCIES AND RISKS

COMMITMENTS AND CONTINGENCIES >>> At April 30, 2005, we maintained $2.0 billion in back-up credit facilities to support the commercial paper program and for general corporate purposes. The first $1.0 billion unsecured committed line of credit (CLOC) is subject to annual renewal in August 2005, has a one-year term-out provision with a maturity date in August 2006 and has an annual facility fee of ten basis points per annum. The second $1.0 billion CLOC has a maturity date of August 2009 and has an annual facility fee of twelve basis points per annum. Among other provisions, the credit agreement limits our indebtedness.

We maintain a revolving credit facility in an amount not to exceed $125.0 million (Canadian) in Canada to support a commercial paper program with varying borrowing levels throughout the year, reaching its peak during February and March for the Canadian tax season.

We offer guarantees under our POM program to tax clients whereby we will assume the cost, subject to certain limits, of additional tax assessments, up to a cumulative per client limit of $5,000, attributable to tax return preparation error for which we are responsible. We defer all revenues and direct costs associated with these guarantees, recognizing these amounts over the term of the guarantee based upon historic and actual payment of claims. The related current asset is included in prepaid expenses and other current assets. The related liability is included in accounts payable, accrued expenses and other on the consolidated balance sheets. The related noncurrent asset and liability are included in other assets and other noncurrent

Table of Contents

liabilities, respectively, on the consolidated balance sheets. A loss on these POM guarantees would be recognized if the sum of expected costs for services exceeded unearned revenue. The deferred revenue liability increased in fiscal year 2004 by $61.5 million due to the change in accounting principle. The changes in the deferred revenue liability for the fiscal years ended April 30, 2005 and 2004 are as follows:

		(in 000s)
April 30,	**2005**	2004
Balance, beginning of year	**$ 123,048**	$ 49,280
Amounts deferred for new guarantees issued	**77,756**	81,803
Revenue recognized on previous deferrals	**(70,042)**	(69,522)
Adjustment resulting from change in accounting principle		61,487
Balance, end of year	**$ 130,762**	$ 123,048

We have commitments to fund mortgage loans to customers as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses. The commitments to fund loans amounted to $3.9 billion and $2.6 billion at April 30, 2005 and 2004, respectively. External market forces impact the probability of commitments being exercised, and therefore, total commitments outstanding do not necessarily represent future cash requirements.

We have entered into whole loan sale agreements with investors in the normal course of business, which include standard representations and warranties customary to the mortgage banking industry. Violations of these representations and warranties may require us to repurchase loans previously sold. In accordance with these loan sale agreements, we repurchased loans with an outstanding principal balance of $195.3 million and $192.3 million during the fiscal years ended April 30, 2005 and 2004, respectively. A liability has been established related to the potential loss on repurchase of loans previously sold of $41.2 million and $25.2 million at April 30, 2005 and 2004, respectively. Repurchased loans are normally sold in subsequent sale transactions. On an ongoing basis, we monitor the adequacy of this liability, which is established upon the initial sale of the loans, and is included in accounts payable, accrued expenses and deposits in the consolidated balance sheets. In determining the adequacy of the recourse liability, we consider such factors as known problem loans, underlying collateral values, historical loan loss experience, assessment of economic conditions and other appropriate data to identify the risks in the mortgage loans held for sale.

We are responsible for servicing mortgage loans for others of $47.5 billion and subservicing loans of $20.5 billion at April 30, 2005.

We are required, under the terms of our securitizations, to build and/or maintain overcollateralization (OC) to specified levels, using the excess cash flows received, until specified percentages of the securitized portfolio are attained. We fund the OC account from the proceeds of the sale. Future cash flows to the residual holder are used to amortize the bonds until a specific percentage of either the original or current balance is retained, which is specified in the securitization agreement. The bondholders recourse to us for credit losses is limited to the excess cash flows received and the amount of OC held by the trust. Upon maturity of the bonds, any remaining amounts in the trust are distributed. The estimated future cash flows to be distributed to us are included as part of the residual valuation and are valued upon distribution from the OC account. As of April 30, 2005 and 2004, $309.5 million and $316.0 million, respectively, was maintained in various OC accounts. These accounts are not assets of the Company and are not reflected in the accompanying consolidated financial statements, other than to the extent potential OC cash flows are included as part of residual interest valuations.

Option One provides a guarantee up to a maximum amount equal to approximately 10% of the aggregate principal balance of mortgage loans held by the Trusts before ultimate disposition of the loans by the Trusts. This guarantee would be called upon in the event adequate proceeds were not available from the sale of the mortgage loans to satisfy the current or ultimate payment obligations of the Trusts. No losses have been sustained on this commitment since its

inception. The total principal amount of Trust obligations outstanding as of April 30, 2005 and 2004 was $6.7 billion and $3.2 billion, respectively. The fair value of mortgage loans held by the Trusts as of April 30, 2005 and 2004 was $6.8 billion and $3.3 billion, respectively.

We are required, in the event of non-delivery of customers securities owed to us by other broker-dealers or by our customers, to purchase identical securities in the open market. Such purchases could result in losses not reflected in the accompanying consolidated financial statements.

As of April 30, 2005, we had pledged securities totaling $44.6 million, which satisfied margin deposit requirements of $36.7 million.

We monitor the credit standing of brokers and dealers and customers with whom we do business. In addition, we monitor the market value of collateral held and the market value of securities receivable from others, and seek to obtain additional collateral if insufficient protection against loss exists.

Table of Contents

We have various contingent purchase price obligations in connection with prior acquisitions. In many cases, contingent payments to be made in connection with these acquisitions are not subject to a stated limit. We estimate the potential payments (undiscounted) total approximately $5.1 million as of April 30, 2005. Our estimate is based on current financial conditions. Should actual results differ materially from the assumptions, the potential payments will differ from the above estimate. Such payments, if and when paid, would be recorded as additional goodwill.

At April 30, 2005, we had a receivable from M&P of $13.8 million. This amount is included in receivables in the consolidated balance sheet. Commitments exist to loan M&P the lower of the value of their accounts receivable, work-in-process and fixed assets or $75.0 million, on a revolving basis through August 30, 2005, subject to certain termination clauses. This revolving facility bears interest at prime rate plus four and one-half percent on the outstanding amount and a commitment fee of one-half percent per annum on the unused portion of the commitment. The loan is fully secured by the accounts receivable, work-in-process and fixed assets of M&P. We anticipate entering into a new revolving facility, which will extend the loan past August 30, 2005.

We have contractual commitments to fund certain franchises requesting Franchise Equity Lines of Credit (FELCs). The commitment to fund FELCs as of April 30, 2005 totaled $68.9 million, with a related receivable balance of $39.0 million included in the consolidated balance sheets. The receivable represents the amount drawn on the FELCs as of April 30, 2005.

We are self-insured for certain risks, including certain employee health and benefit, workers compensation, property and general liability claims, and claims related to our POM program. We issued three standby letters of credit to servicers paying claims related to our POM, errors and omissions and worker s compensation insurance policies. These letters of credit are for amounts not to exceed $10.7 million, $3.0 million and $0.9 million, respectively. At April 30, 2005 there were no balances outstanding on these letters of credit.

HRBFA has letters of credit with a financial institution with a credit limit of $125.0 million. There were no borrowings on these letters of credit during fiscal years 2005 or 2004 and no outstanding balance at April 30, 2005 or 2004.

During fiscal year 2004, we announced plans to construct a new world headquarters facility in downtown Kansas City, Missouri. We are in negotiations to enter into contractual commitments with the City of Kansas City and a general contractor for the construction of the building. As of April 30, 2005, no commitment for the total cost of the building had been negotiated. We expect the remaining expenditure associated with this building to be approximately $143.1 million, which will be paid over the next two fiscal years.

We routinely enter into contracts that include embedded indemnifications that have characteristics similar to guarantees. Other guarantees and indemnifications of the Company and its subsidiaries include obligations to protect counter parties from losses arising from the following: (1) tax, legal and other risks related to the purchase or disposition of businesses; (2) penalties and interest assessed by federal and state taxing authorities in connection with tax returns prepared for clients; (3) indemnification of our directors and officers; and (4) third-party claims relating to various arrangements in the normal course of business. Typically, there is no stated maximum payment related to these indemnifications, and the term of indemnities may vary and in many cases is limited only by the applicable statute of limitations. The likelihood of any claims being asserted against us and the ultimate liability related to any such claims, if any, is difficult to predict. While we cannot provide assurance we will ultimately prevail in the event any such claims are asserted, we believe the fair value of these guarantees and indemnifications is not material as of April 30, 2005.

Substantially all of the operations of our subsidiaries are conducted in leased premises. Most of the operating leases are for periods ranging from 3 years to 5 years, with renewal options and provide for fixed monthly rentals.

Future minimum lease commitments at April 30, 2005 are as follows:

	(in 000s)
2006	**$ 229,768**
2007	**186,111**
2008	**127,153**

2009	**81,608**
2010	**43,337**
2011 and beyond	**40,634**
	$ 708,611

Our rent expense for fiscal years 2005, 2004 and 2003 totaled $275.3 million, $241.2 million and $215.5 million, respectively.

In the regular course of business, we are subject to routine examinations by federal, state and local taxing authorities. In management s opinion, the disposition of matters raised by such taxing authorities, if any, in such tax examinations would not have a material adverse impact on our consolidated financial statements.

RISKS >>> Loans to borrowers who do not meet traditional underwriting criteria, or non-prime borrowers, present a higher

Table of Contents

level of risk of default than prime loans, because of previous credit problems, higher debt-to-income levels, lack of income documentation or limited credit history. Loans to non-prime borrowers also involve additional liquidity risks, as these loans generally have a more limited secondary market than prime loans. The actual rates of delinquencies, foreclosures and losses on loans to non-prime borrowers could be higher under adverse economic conditions than those currently experienced in the mortgage lending industry in general. While we believe the underwriting procedures and appraisal processes we employ enable us to mitigate certain risks inherent in loans made to these borrowers, no assurance can be given that such procedures or processes will afford adequate protection against such risks.

Commitments to fund loans involve, to varying degrees, elements of credit risk and interest rate risk in excess of the amount recognized in the financial statements. Credit risk is mitigated by our evaluation of the creditworthiness of potential borrowers on a case-by-case basis.

Risks to the stability of Mortgage Services include external events impacting the asset-backed securities market, such as the level of and fluctuations in interest rates, real estate and other asset values, changes in the securitization market and competition.

NOTE 18: LITIGATION COMMITMENTS AND CONTINGENCIES

We have been involved in a number of class actions and putative class action cases since 1990 regarding our RAL programs. These cases are based on a variety of legal theories and allegations. These theories and allegations include, among others, that (i) we improperly did not disclose license fees we received from RAL lending banks for RALs they make to our clients, (ii) we owe and breached a fiduciary duty to our clients and (iii) the RAL program violates laws such as state credit service organization laws and the federal Racketeer Influenced and Corrupt Organizations (RICO) Act. Although we have successfully defended many RAL cases, we incurred a pretax expense of $43.5 million in fiscal year 2003 in connection with settling one RAL case. Several of the RAL cases are still pending and the amounts claimed in some of them are very substantial. The ultimate cost of this litigation could be substantial. We intend to continue defending the RAL cases vigorously, although there are no assurances as to their outcome.

As discussed in our Form 8-K dated May 9, 2005, we initially recorded litigation reserves of approximately $38.0 million, after taxes in connection with a proposed settlement of *Lynne A. Carnegie, et al. v. Household International, Inc., H&R Block, Inc., et al*., (formerly Joel E. Zawikowski, et al. v. Beneficial National Bank, H&R Block, Inc., Block Financial Corporation, et al.). In negotiating the proposed settlement and in determining the amount of consideration we were willing to pay under the proposed settlement, we ascribed significant value to the expanded class of plaintiffs to be covered by the proposed settlement and settlement terms that reduced the likelihood of future claims being made against us regarding our RAL programs. As a result of the May 26, 2005 court ruling to deny the settlement offer, we reversed our legal reserves to amounts representing our assessment of our probable loss.

We are also parties to claims and lawsuits pertaining to our electronic tax return filing services and our POM guarantee program associated with income tax preparation services. These claims and lawsuits include actions by individual plaintiffs, as well as cases in which plaintiffs seek to represent a class of similarly situated customers. The amounts claimed in these claims and lawsuits are substantial in some instances, and the ultimate liability with respect to such litigation and claims is difficult to predict. We intend to continue defending these cases vigorously, although there are not assurances as to their outcome.

In addition to the aforementioned types of cases, we are parties to claims and lawsuits that we consider to be ordinary, routine disputes incidental to our business (Other Claims and Lawsuits), including claims and lawsuits concerning the preparation of customers income tax returns, the fees charged customers for various services, investment products, relationships with franchisees, contract disputes and civil actions, arbitrations, regulatory inquiries and class actions arising out of our business as a broker-dealer and as a servicer of mortgage loans. We believe we have meritorious defenses to each of the Other Claims and Lawsuits and are defending, or intend to defend, them vigorously. Although we cannot provide assurance we will ultimately prevail in each instance, we believe that amounts, if any, required to be paid in the discharge of liabilities or settlements pertaining to Other Claims and Lawsuits will not have a material adverse effect on our consolidated financial statements. Regardless of outcome, claims and litigation can adversely affect us due to defense costs, diversion of management and publicity related to such matters.

It is our policy to accrue for amounts related to legal matters if it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated. Many of the various legal proceedings are covered in whole, or in part, by insurance. Any receivable for insurance recoveries is recorded separate from the corresponding litigation reserve, and only if recovery is determined to be probable. Receivables for insurance recoveries at April 30, 2005 were immaterial.

Table of Contents

NOTE 19: SUBSEQUENT EVENTS

On June 8, 2005, our Board of Directors declared a two-for-one stock split of the Company s Common Stock in the form of a 100% stock distribution, effective August 22, 2005, to shareholders of record as of the close of business on August 1, 2005. All share and per share amounts have been adjusted to reflect the retroactive effect of the stock split for all periods presented.

Additionally, we have corrected certain amounts set forth in the 2004 and 2003 condensed consolidating financial information in note 22 which were inadvertently not updated in our original Form 10-K filing.

NOTE 20: SEGMENT INFORMATION

The principal business activity of our operating subsidiaries is providing tax and financial services and products to the general public. Management has determined the reportable segments identified below according to types of services offered and the manner in which operational decisions are made. We operate in the following reportable segments:

TAX SERVICES >>> This segment is primarily engaged in providing tax return preparation and related services and products in the U.S., Canada, Australia and the United Kingdom. Segment revenues include fees earned for tax-related services performed at company-owned tax offices, royalties from franchise offices, sales of tax preparation and other software, fees from online tax preparation, and payments related to RALs. This segment includes the Company s tax preparation software TaxCut® from H&R Block, and other personal productivity software offered to the general public, and offers online do-it-yourself-tax preparation, online tax advice to the general public through the *www.hrblock.com* website. Revenues of this segment are seasonal in nature.

Our international operations contributed $110.0 million, $97.6 million and $85.1 million in revenues for fiscal years 2005, 2004 and 2003, respectively, and $11.3 million, $11.1 million and $10.5 million of pretax income, respectively. The previously reported International Tax Operations segment has been aggregated with U.S. Tax Operations in the Tax Services segment, and prior year results have been reclassified to reflect this change.

MORTGAGE SERVICES >>> This segment is primarily engaged in the origination of non-prime mortgage loans, sales and securitizations of mortgage assets and servicing of non-prime loans in the U.S. This segment mainly offers, through a network of independent mortgage brokers, a flexible product line to borrowers who are creditworthy but do not meet traditional underwriting criteria. Prime mortgage loan products, as well as the same flexible product line available through brokers, are offered through H&R Block Mortgage Corporation retail offices and some other retail offices.

BUSINESS SERVICES >>> This segment offers middle-market companies accounting, tax and consulting services, wealth management, retirement resources, payroll services, corporate finance, and financial process outsourcing. This segment offers services through offices located throughout the U.S. Revenues of this segment are seasonal in nature.

INVESTMENT SERVICES >>> This segment is primarily engaged in offering investment services and securities products through H&R Block Financial Advisors, Inc., a full-service securities broker-dealer, to the general public. Investment advice and services are primarily offered through H&R Block Financial Advisors branch offices.

CORPORATE >>> This segment consists primarily of corporate support departments that provide services to our operating segments. These support departments consist of marketing, information technology, facilities, human resources, executive, legal, finance, government relations and corporate communications. These support department costs are largely allocated to our operating segments. Our captive insurance and franchise financing subsidiaries are also included within this segment, as was our small business initiatives subsidiary in fiscal years 2004 and 2003. The pretax loss from our Corporate segment for fiscal year 2005 includes a non-operating gain of $17.3 million, or $0.03 per diluted share, resulting from legal recoveries.

IDENTIFIABLE ASSETS >>> Identifiable assets are those assets, including goodwill and intangible assets, associated with each reportable segment. The remaining assets are classified as corporate assets and consist primarily of cash, marketable securities and equipment.

Table of Contents

Information concerning the Company s operations by reportable segment as of and for the years ended April 30, 2005, 2004 and 2003 is as follows. See note 2 for details of the restatements of our previously issued financial statements.

(in 000s)

		2004			2003		
Year Ended April 30,	**2005**	As Reported	Adjustments	Restated	As Reported	Adjustments	Restated
REVENUES >>>							
Tax Services	**$ 2,358,293**	$ 2,191,177	$	$ 2,191,177	$ 1,946,763	$	$ 1,946,763
Mortgage Services	**1,246,018**	1,300,675	23,034	1,323,709	1,186,475	(36,395)	1,150,080
Business Services	**573,316**	499,210		499,210	434,140		434,140
Investment Services	**239,244**	229,470		229,470	200,794		200,794
Corporate	**3,148**	4,314		4,314	(651)		(651)
	$ 4,420,019	$ 4,224,846	$ 23,034	$ 4,247,880	$ 3,767,521	$ (36,395)	$ 3,731,126
INCOME (LOSS) BEFORE TAXES >>>							
Tax Services	**$ 663,518**	$ 638,689	$ (196)	$ 638,493	$ 557,542	$ (839)	$ 556,703
Mortgage Services	**496,093**	678,261	10,262	688,523	693,950	(37,626)	656,324
Business Services	**29,871**	19,321	(9)	19,312	(14,118)	(1,915)	(16,033)
Investment Services	**(75,370)**	(64,446)	(11,168)	(75,614)	(128,292)	(91,129)	(219,421)
Corporate	**(96,397)**	(107,668)	(71)	(107,739)	(122,005)	(4)	(122,009)
	$ 1,017,715	$ 1,164,157	$ (1,182)	$ 1,162,975	$ 987,077	$ (131,513)	$ 855,564

(in 000s)

Year Ended April 30,	**Restated 2005**	Restated 2004	Restated 2003
DEPRECIATION AND AMORTIZATION >>>			
Tax Services	**$ 79,079**	$ 76,279	$ 61,487
Mortgage Services	**31,043**	24,428	21,703
Business Services	**23,591**	23,104	23,135
Investment Services	**48,662**	54,378	61,254
Corporate	**1,492**	942	1,513
	$ 183,867	$ 179,131	$ 169,092
Goodwill impairments:			
Business Services			13,459
Investment Services			108,792

			122,251
	$ 183,867	$ 179,131	$ 291,343
CAPITAL EXPENDITURES >>>			
Tax Services	**$ 74,297**	$ 50,204	$ 65,469
Mortgage Services	**56,613**	28,176	38,204
Business Services	**22,582**	18,003	15,248
Investment Services	**9,503**	10,531	13,371
Corporate	**46,463**	16,912	16,414
	$ 209,458	$ 123,826	$ 148,706
IDENTIFIABLE ASSETS >>>			
Tax Services	**$ 716,981**	$ 666,548	$ 354,617
Mortgage Services	**1,336,920**	1,108,022	1,241,772
Business Services	**701,763**	637,542	677,334
Investment Services	**1,481,127**	1,624,383	1,423,716
Corporate	**1,301,265**	1,197,332	969,063
	$ 5,538,056	$ 5,233,827	$ 4,666,502

Table of Contents

NOTE 21: QUARTERLY FINANCIAL DATA (UNAUDITED)

(in 000s, except per share amounts)

Fiscal Year 2005 Quarter Ended	As Reported **Fiscal Year 2005**	As Restated **Fiscal Year 2005**	As Reported **April 30, 2005**	As Restated **April 30, 2005**	As Reported **January 31, 2005**
Revenues	**$ 4,420,019**	**$ 4,420,019**	**$ 2,355,279**	**$ 2,355,279**	**$ 1,032,007**
Income before taxes	**1,017,715**	**1,017,715**	**1,003,055**	**1,003,055**	**151,683**
Income taxes	**381,858**	**393,805**	**376,349**	**388,125**	**59,991**
Net income	**$ 635,857**	**$ 623,910**	**$ 626,706**	**$ 614,930**	**$ 91,692**
Basic earnings per share	**$ 1.92**	**$ 1.88**	**$ 1.89**	**$ 1.86**	**$ 0.28**
Diluted earnings per share	**$ 1.88**	**$ 1.85**	**$ 1.86**	**$ 1.83**	**$ 0.27**

Fiscal Year 2005 Quarter Ended	As Restated **January 31, 2005**	As Reported **October 31, 2004**	As Restated **October 31, 2004**	As Reported **July 31, 2004**	As Restated **July 31, 2004**
Revenues	**$ 1,036,236**	**$ 539,255**	**$ 541,953**	**$ 482,711**	**$ 486,551**
Income before taxes	**153,278**	**(85,924)**	**(79,818)**	**(72,564)**	**(58,800)**
Income taxes	**59,542**	**(33,725)**	**(31,016)**	**(28,481)**	**(22,846)**
Net income	**$ 93,736**	**$ (52,199)**	**$ (48,802)**	**$ (44,083)**	**$ (35,954)**
Basic earnings per share	**$ 0.28**	**$ (0.16)**	**$ (0.15)**	**$ (0.13)**	**$ (0.11)**
Diluted earnings per share	**$ 0.28**	**$ (0.16)**	**$ (0.15)**	**$ (0.13)**	**$ (0.11)**

Fiscal Year 2004 Quarter Ended	As Reported Fiscal Year 2004	As Restated Fiscal Year 2004	As Reported April 30, 2004	As Restated April 30, 2004	As Reported January 31, 2004
Revenues	$ 4,224,846	$ 4,247,880	$ 2,197,760	$ 2,200,935	$ 962,830
Income before taxes	1,164,157	1,162,975	952,074	949,469	176,120
Income taxes	459,901	462,523	376,439	377,531	69,394
Net income before change in accounting principle	704,256	700,452	575,635	571,938	106,726

Cumulative effect of change in accounting principle	(6,359)	(6,359)			
Net income	$ 697,897	$ 694,093	$ 575,635	$ 571,938	$ 106,726
Basic earnings per share:					
Before change in accounting principle	$ 1.99	$ 1.98	$ 1.65	$ 1.64	$ 0.30
Net income	1.97	1.96	1.65	1.64	0.30
Diluted earnings per share:					
Before change in accounting principle	$ 1.95	$ 1.94	$ 1.62	$ 1.60	$ 0.29
Net income	1.93	1.92	1.62	1.60	0.29

Table of Contents

Fiscal Year 2004 Quarter Ended	As Restated January 31, 2004	As Reported October 31, 2003	As Restated October 31, 2003	As Reported July 31, 2003	As Restated July 31, 2003
Revenues	$ 974,520	$ 568,872	$ 573,267	$ 495,384	$ 499,158
Income before taxes	181,406	17,134	15,390	18,829	16,710
Income taxes	72,214	6,758	6,126	7,310	6,652
Net income before change in accounting principle	109,192	10,376	9,264	11,519	10,058
Cumulative effect of change in accounting principle				(6,359)	(6,359)
Net income	$ 109,192	$ 10,376	$ 9,264	$ 5,160	$ 3,699
Basic earnings per share:					
Before change in accounting principle	$ 0.31	$ 0.03	$ 0.03	$ 0.03	$ 0.03
Net income	0.31	0.03	0.03	0.01	0.01
Diluted earnings per share:					
Before change in accounting principle	$ 0.30	$ 0.03	$ 0.03	$ 0.03	$ 0.03
Net income	0.30	0.03	0.03	0.01	0.01

We restated our previously issued consolidated financial statements, including each of the fiscal years ended April 30, 2005, 2004 and 2003. See note 2 for a detailed description of each restatement issue. The following is a summary of the impact of the restatement described in note 2(A) on our quarterly consolidated income statements for fiscal years 2005 and 2004:

(in 000s)

Fiscal Year 2005 Quarter Ended	April 30, 2005	January 31, 2005	October 31, 2004	July 31, 2004
Impact on:				
Income tax (benefit)	$ 11,776	$ 2,029	$ (1,070)	$ (788)
Net Income	(11,776)	(2,029)	1,070	788
Basic earnings per share	$ (0.03)	$ (0.01)	$	$
Diluted earnings per share	(0.03)			

Fiscal Year 2004 Quarter Ended	April 30, 2004	January 31, 2004	October 31, 2003	July 31, 2003
Impact on:				
Income tax (benefit)	$ 12,294	$ 2,432	$ 206	$ 224
Net income	(12,294)	(2,432)	(206)	(224)
Basic earnings per share:				

Before change in accounting principle	$ (0.04)	$ (0.01)	$	$
Net income	(0.04)	(0.01)		
Diluted earnings per share:				
Before change in accounting principle	$ (0.04)	$ (0.01)	$	$
Net income	(0.04)	(0.01)		

The following is a summary of the impact of the restatement described in note 2(B) on our quarterly consolidated income statements for fiscal years 2005 and 2004:

(in 000s)

Fiscal Year 2005 Quarter Ended	**April 30, 2005**		**January 31, 2005**		**October 31, 2004**		**July 31, 2004**	
Impact on	Revenues	Pretax	Revenues	Pretax	Revenues	Pretax	Revenues	Pretax
Purchase accounting	**$**	**$**	**$**	**$ (1,831)**	**$**	**$ (1,831)**	**$**	**$ (1,831)**
Sales of previously securitized residual interests			**4,229**	**4,229**	**2,698**	**2,698**	**3,840**	**3,840**
Lease accounting				**(1,207)**		**(414)**		**(175)**
Incentive compensation accrual								**12,070**
Improper capitalization				**404**		**5,653**		**(140)**
	$	**$**	**$ 4,229**	**$ 1,595**	**$ 2,698**	**$ 6,106**	**$ 3,840**	**$ 13,764**
Income tax (benefit)				**(2,478)**		**3,779**		**6,423**
Net income		**$**		**$ 4,073**		**$ 2,327**		**$ 7,341**
Basic earnings per share		**$**		**$ 0.01**		**$ 0.01**		**$ 0.02**
Diluted earnings per share				**0.01**		**0.01**		**0.02**

Fiscal Year 2004 Quarter Ended	April 30, 2004		January 31, 2004		October 31, 2003		July 31, 2003	
Impact on	Revenues	Pretax	Revenues	Pretax	Revenues	Pretax	Revenues	Pretax
Purchase accounting	$	$ (1,831)	$	$ (1,831)	$	$ (1,831)	$	$ (1,831)
Sales of previously securitized residual interests	3,175	3,175	11,690	11,690	4,395	4,395	3,774	3,774
Lease accounting		(608)		(510)		(216)		29
Incentive compensation accrual		(3,018)		(3,018)		(3,018)		(3,018)
Improper capitalization		(323)		(1,045)		(1,074)		(1,073)
	$ 3,175	$ (2,605)	$ 11,690	$ 5,286	$ 4,395	$ (1,744)	$ 3,774	$ (2,119)
Income tax (benefit)		(11,202)		388		(838)		(882)
Net income		$ 8,597		$ 4,898		$ (906)		$ (1,237)
Basic earnings per share:								
Before change in accounting principle		$ 0.03		$ 0.02		$		$
Net income		0.03		0.02				
Diluted earnings per share:								
Before change in accounting principle		$ 0.02		$ 0.02		$		$

Net income	0.02	0.02

The accumulation of four quarters in fiscal years 2005 and 2004 for earnings per share may not equal the related per share amounts for the years ended April 30, 2005 and 2004 due to the repurchase of treasury shares, the timing of the exercise of stock options, and the antidilutive effect of stock options in the first two quarters.

Table of Contents

	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fiscal Year
FISCAL YEAR 2005 >>>					
Dividends per share	**$ .11**	**$ .11**	**$ .11**	**$ .10**	**$ .43**
Stock price range:					
High	**$ 27.93**	**$ 25.25**	**$ 25.75**	**$ 25.00**	**$ 27.93**
Low	**23.43**	**22.99**	**22.57**	**22.08**	**22.08**
FISCAL YEAR 2004 >>>					
Dividends per share	$ .10	$ .10	$ .10	$ .09	$ .39
Stock price range:					
High	$ 30.50	$ 30.09	$ 24.18	$ 23.00	$ 30.50
Low	22.25	23.57	20.28	18.15	18.15

NOTE 22: CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

Block Financial Corporation (BFC) is an indirect, wholly-owned subsidiary of the Company. BFC is the Issuer and H&R Block, Inc. is the Guarantor of the $250.0 million 6^{3}/4% Senior Notes issued on October 21, 1997, the $500.0 million 8^{1}/2% Senior Notes issued on April 13, 2000 and the $400.0 million 5.125% Senior Notes issued on October 26, 2004. Our guarantee is full and unconditional. The following condensed consolidating financial statements present separate information for BFC, the Company and for our other subsidiaries, and should be read in conjunction with our consolidated financial statements.

These condensed consolidating financial statements have been prepared using the equity method of accounting. Income of subsidiaries is, therefore, reflected in our investment in subsidiaries account. The elimination entries eliminate investments in subsidiaries, related stockholder s equity and other intercompany balances and transactions. The income statements and statements of cash flows for the twelve months ended April 30, 2004 and 2003 and balance sheet as of April 30, 2004 have been adjusted to reflect intercompany royalties between BFC and other subsidiaries. These adjustments have no effect on H&R Block, Inc. (Guarantor) or Consolidated H&R Block.

CONDENSED CONSOLIDATING INCOME STATEMENTS

(in 000s)

Year Ended April 30, 2005 (as restated)	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Eliminations	Consolidated H&R Block
Revenues	**$**	**$ 1,871,703**	**$ 2,565,496**	**$ (17,180)**	**$ 4,420,019**
Expenses:					
Cost of service revenues		**404,205**	**1,595,199**	**(184)**	**1,999,220**
Cost of other revenues		**385,908**	**30,513**		**416,421**
Selling, general and administrative		**479,136**	**487,419**	**(14,430)**	**952,125**
		1,269,249	**2,113,131**	**(14,614)**	**3,367,766**
Operating income		**602,454**	**452,365**	**(2,566)**	**1,052,253**
Interest expense		**59,247**	**3,293**	**(173)**	**62,367**
Other income, net	**1,017,715**	**17,277**	**10,552**	**(1,017,715)**	**27,829**

Income before taxes	**1,017,715**	**560,484**	**459,624**	**(1,020,108)**	**1,017,715**
Income taxes	**393,805**	**218,869**	**175,862**	**(394,731)**	**393,805**
Net income	**$ 623,910**	**$ 341,615**	**$ 283,762**	**$ (625,377)**	**$ 623,910**

Table of Contents

Year Ended April 30, 2004 (as restated)	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Eliminations	Consolidated H&R Block
Revenues	$	$ 1,844,772	$ 2,419,446	$ (16,338)	$ 4,247,880
Expenses:					
Cost of service revenues		372,217	1,422,567	(283)	1,794,501
Cost of other revenues		355,197	25,168		380,365
Selling, general and administrative		371,243	493,114	(15,682)	848,675
		1,098,657	1,940,849	(15,965)	3,023,541
Operating income		746,115	478,597	(373)	1,224,339
Interest expense		66,931	4,287		71,218
Other income, net	1,162,975		9,854	(1,162,975)	9,854
Income before taxes	1,162,975	679,184	484,164	(1,163,348)	1,162,975
Income taxes	462,523	263,456	199,216	(462,672)	462,523
Income before change in accounting	700,452	415,728	284,948	(700,676)	700,452
Cumulative effect of change in accounting	(6,359)		(6,359)	6,359	(6,359)
Net income	$ 694,093	$ 415,728	$ 278,589	$ (694,317)	$ 694,093

Year Ended April 30, 2003 (as restated)	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Eliminations	Consolidated H&R Block
Revenues	$	$ 1,551,572	$ 2,192,510	$ (12,956)	$ 3,731,126
Expenses:					
Cost of service revenues		304,947	1,320,729	261	1,625,937
Cost of other revenues		273,210	27,539		300,749
Selling, general and administrative		423,376	472,936	(13,197)	883,115
		1,001,533	1,821,204	(12,936)	2,809,801
Operating income		550,039	371,306	(20)	921,325
Interest expense		68,173	8,550		76,723
Other income, net	855,564	4,127	6,835	(855,564)	10,962
Income before taxes	855,564	485,993	369,591	(855,584)	855,564
Income taxes	377,949	232,577	145,381	(377,958)	377,949

Net income	$ 477,615	$ 253,416	$ 224,210	$ (477,626)	$ 477,615

Table of Contents

CONDENSED CONSOLIDATING BALANCE SHEETS

(in 000s)

April 30, 2005 (as restated)	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Eliminations	Consolidated H&R Block
Cash & cash equivalents	**$**	**$ 162,983**	**$ 937,230**	**$**	**$ 1,100,213**
Cash & cash equivalents restricted		**488,761**	**28,148**		**516,909**
Receivables from customers, brokers and dealers, net		**590,226**			**590,226**
Receivables, net	**101**	**199,990**	**218,697**		**418,788**
Intangible assets and goodwill, net		**421,036**	**842,003**		**1,263,039**
Investments in subsidiaries	**4,851,680**	**210**	**449**	**(4,851,680)**	**659**
Other assets		**1,407,082**	**241,532**	**(392)**	**1,648,222**
Total assets	**$ 4,851,781**	**$ 3,270,288**	**$ 2,268,059**	**$ (4,852,072)**	**$ 5,538,056**
Accounts payable to customers, brokers and dealers	**$**	**$ 950,684**	**$**	**$**	**$ 950,684**
Long-term debt		**896,591**	**26,482**		**923,073**
Other liabilities	**2**	**532,562**	**1,182,459**	**8**	**1,715,031**
Net intercompany advances	**2,902,511**	**(641,611)**	**(2,262,818)**	**1,918**	
Stockholders equity	**1,949,268**	**1,532,062**	**3,321,936**	**(4,853,998)**	**1,949,268**
Total liabilities and stockholders equity	**$ 4,851,781**	**$ 3,270,288**	**$ 2,268,059**	**$ (4,852,072)**	**$ 5,538,056**

April 30, 2004 (as restated)	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Eliminations	Consolidated H&R Block
Cash & cash equivalents	$	$ 133,188	$ 939,557	$	$ 1,072,745
Cash & cash equivalents restricted		532,201	13,227		545,428
Receivables from customers, brokers and dealers, net		625,076			625,076
Receivables, net	180	150,188	178,851		329,219
Intangible assets and goodwill, net		457,661	829,283		1,286,944
Investments in subsidiaries	4,199,343	205	297	(4,199,343)	502
Other assets	(145)	1,125,578	248,848	(368)	1,373,913
Total assets	$ 4,199,378	$ 3,024,097	$ 2,210,063	$ (4,199,711)	$ 5,233,827
Accounts payable to customers, brokers and dealers	$	$ 1,065,793	$	$	$ 1,065,793
Long-term debt		498,225	47,586		545,811

Other liabilities	15,879	580,331	1,220,793	561	1,817,564
Net intercompany advances	2,378,840	(317,187)	(2,061,092)	(561)	
Stockholders equity	1,804,659	1,196,935	3,002,776	(4,199,711)	1,804,659
Total liabilities and stockholders equity	$ 4,199,378	$ 3,024,097	$ 2,210,063	$ (4,199,711)	$ 5,233,827

Table of Contents

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

(in 000s)

Year Ended April 30, 2005 (as restated)	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Eliminations	Consolidated H&R Block
Net cash provided by operating activities:	**$ 39,134**	**$ 122,311**	**$ 352,348**	**$**	**$ 513,793**
Cash flows from investing activities:					
Cash received on residual interests		**136,045**			**136,045**
Purchases of property & equipment, net		**(66,255)**	**(143,203)**		**(209,458)**
Payments made for business acquisitions			**(37,621)**		**(37,621)**
Net intercompany advances	**497,774**			**(497,774)**	**-**
Other, net		**33,710**	**18,914**		**52,624**
Net cash provided by (used in) investing activities	**497,774**	**103,500**	**(161,910)**	**(497,774)**	**(58,410)**
Cash flows from financing activities:					
Repayments of commercial paper		**(5,191,623)**			**(5,191,623)**
Proceeds from issuance of commercial paper		**5,191,623**			**5,191,623**
Repayments of long-term debt		**(250,000)**			**(250,000)**
Proceeds from issuance of long-term debt		**395,221**			**395,221**
Payments on acquisition debt			**(25,664)**		**(25,664)**
Dividends paid	**(142,988)**				**(142,988)**
Acquisition of treasury shares	**(530,022)**				**(530,022)**
Proceeds from issuance of common stock	**136,102**				**136,102**
Net intercompany advances		**(324,424)**	**(173,350)**	**497,774**	**-**
Other, net		**(16,813)**	**6,249**		**(10,564)**
Net cash provided by (used in) financing activities	**(536,908)**	**(196,016)**	**(192,765)**	**497,774**	**(427,915)**
Net increase (decrease) in cash and cash equivalents		**29,795**	**(2,327)**		**27,468**
Cash and cash equivalents at beginning of the year		**133,188**	**939,557**		**1,072,745**
Cash and cash equivalents at end of the year	**$**	**$ 162,983**	**$ 937,230**	**$**	**$ 1,100,213**

Year Ended April 30, 2004 (as restated)	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Eliminations	Consolidated H&R Block

Net cash provided by operating activities:	$ 64,782	$ 163,464	$ 624,217	$	$ 852,463
Cash flows from investing activities:					
Cash received on residual interests		193,606			193,606
Sales of residual interests in securitizations		53,391			53,391
Purchases of property & equipment, net		(35,482)	(88,344)		(123,826)
Payments made for business acquisitions			(280,865)		(280,865)
Net intercompany advances	473,521			(473,521)	
Other, net		12,655	17,653		30,308
Net cash provided by (used in) investing activities	473,521	224,170	(351,556)	(473,521)	(127,386)
Cash flows from financing activities:					
Repayments of commercial paper		(4,618,853)			(4,618,853)
Proceeds from issuance of commercial paper		4,618,853			4,618,853
Payments on acquisition debt			(59,003)		(59,003)
Dividends paid	(138,397)				(138,397)
Acquisition of treasury shares	(519,862)				(519,862)
Proceeds from issuance of common stock	119,956				119,956
Net intercompany advances		(453,477)	(20,044)	473,521	
Other, net		18,850	12,831		31,681
Net cash provided by (used in) financing activities	(538,303)	(434,627)	(66,216)	473,521	(565,625)
Net increase (decrease) in cash and cash equivalents		(46,993)	206,445		159,452
Cash and cash equivalents at beginning of the year		180,181	733,112		913,293
Cash and cash equivalents at end of the year	$	$ 133,188	$ 939,557	$	$ 1,072,745

Table of Contents

Year Ended April 30, 2003 (as restated)	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Eliminations	Consolidated H&R Block
Net cash provided by operating activities	$ 36,560	$ 141,165	$ 512,010	$	$ 689,735
Cash flows from investing activities:					
Cash received on residual interests		140,795			140,795
Sales of residual interests in securitizations		142,486			142,486
Purchases of property & equipment, net		(35,808)	(112,898)		(148,706)
Payments made for business acquisitions			(26,408)		(26,408)
Net intercompany advances	280,583			(280,583)	
Other, net		(1,480)	20,842		19,362
Net cash provided by (used in) investing activities	280,583	245,993	(118,464)	(280,583)	127,529
Cash flows from financing activities:					
Repayments of commercial paper		(9,925,516)			(9,925,516)
Proceeds from issuance of commercial paper		9,925,516			9,925,516
Payments on acquisition debt			(57,469)		(57,469)
Dividends paid	(125,898)				(125,898)
Acquisition of treasury shares	(317,570)				(317,570)
Proceeds from issuance of common stock	126,325				126,325
Net intercompany advances		(402,197)	121,614	280,583	
Other, net		(2,739)	167		(2,572)
Net cash provided by (used in) financing activities	(317,143)	(404,936)	64,312	280,583	(377,184)
Net increase (decrease) in cash and cash equivalents		(17,778)	457,858		440,080
Cash and cash equivalents at beginning of the year		197,959	275,254		473,213
Cash and cash equivalents at end of the year	$	$ 180,181	$ 733,112	$	$ 913,293

ITEM 9A. CONTROLS AND PROCEDURES

(a) EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES >>>

We have established disclosure controls and procedures (Disclosure Controls) to ensure that information required to be disclosed in the Company s reports filed under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the U.S. Securities and Exchange Commission s rules and forms. Disclosure Controls are also designed to ensure that such information is accumulated and communicated to management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure. Our Disclosure Controls were designed to provide reasonable assurance that the controls and

procedures would meet their objectives. Our management, including the Chief Executive Officer and Chief Financial Officer, does not expect that our Disclosure Controls will prevent all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable assurance of achieving the designed control objectives and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusions of two or more people, or by management override of the control. Because of the inherent limitations in a cost-effective, maturing control system, misstatements due to error or fraud may occur and not be detected.

As of the end of the period covered by this Form 10-K, we evaluated the effectiveness of the design and operation of our Disclosure Controls. The controls evaluation was done under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our Disclosure Controls and procedures were not effective as of the end of the period covered by this Annual Report on Form 10-K because of the material weakness in internal control over financial reporting discussed below.

Table of Contents

In February 2006, as a result of the ongoing controls and procedural work to remediate the material weakness in the Company s internal controls over accounting for income taxes as of April 30, 2005, management discovered additional income tax errors which required the restatement of prior periods. In preparation for its revised 10-K/A filing, management reviewed this disclosure and continues to believe it accurately describes the nature of the internal control deficiencies that contributed to the material weakness as of April 30, 2005.

(b) MANAGEMENT S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING >>>

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). Under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) as of April 30, 2005.

Based on our assessment, management determined that a material weakness existed in the Company s internal controls over accounting for income taxes as of April 30, 2005. Specifically, the Company did not maintain sufficient resources in the corporate tax function to accurately identify, evaluate and report, in a timely manner, non-routine and complex transactions. In addition, the Company had not completed the requisite historical analysis and related reconciliations to ensure tax balances were appropriately stated prior to the completion of the Company s internal control activities. These deficiencies resulted in errors in the Company s accounting for income taxes. These errors were corrected prior to issuance of the consolidated financial statements as of and for the year ended April 30, 2005. In the aggregate, these deficiencies represent a material weakness in internal control over financial reporting on the basis that there is a more than remote likelihood that a material misstatement of the Company s annual or interim financial statements will not be prevented or detected by its internal control over financial reporting. Because of this material weakness in internal control over financial reporting, management concluded that, as of April 30, 2005, the Company s internal control over financial reporting was not effective based on the criteria set forth by COSO.

The Company s external auditors, KPMG LLP, an independent registered public accounting firm, have issued an audit report on our assessment of the Company s internal control over financial reporting. This report appears on page 24.

(c) CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING >>>

As disclosed most recently in our Quarterly Report on Form 10-Q for the quarter ended January 31, 2005, management had identified an internal control deficiency in our accounting for income taxes. We have dedicated substantial resources to the review of our control processes and procedures specifically related to accounting for income taxes. Based on the results of this review, during the fourth quarter, management completed numerous enhancements to improve our internal controls over financial reporting, specifically those related to accounting for income taxes, including the following actions:

Implemented a comprehensive set of policies and procedures related to accounting for income taxes.

Filled senior-level positions in the corporate tax department with experienced individuals focusing on corporate tax, state/local tax, and mortgage accounting.

Engaged a qualified third-party firm to provide supplementary assistance, REMIC transaction tax expertise, and to assess the tax implications of select historical and future securitizations and the adequacy of the model used by Mortgage Services to track the related book/tax basis adjustments.

Increased the formality and rigor around the operation of key controls.

Other than the changes outlined above, there were no changes that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

In order to remediate the material weakness identified by management as of April 30, 2005, and continuing thereafter, management completed the requisite historical analysis including creation of the necessary tax basis balance sheets and current and deferred reconciliations required and related internal control testing to ensure propriety of all tax related financial statement account balances as of this Form 10-K filing date. The Company believes it has

established appropriate controls and procedures and created the appropriate tax account analysis and support subsequent to April 30, 2005. In addition to the above actions, management will conduct a comprehensive evaluation of the corporate tax function, including resource requirements, during the current fiscal year to identify and implement additional improvements to ensure compliance with the controls and procedures that have been put in place to remediate deficiencies previously identified.

Table of Contents

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Documents filed as part of this Report:

1. The following financial statements appearing in Item 8: Consolidated Statements of Income and Comprehensive Income; Consolidated Balance Sheets; Consolidated Statements of Cash Flows; and Consolidated Statements of Stockholders Equity.

2. Financial Statement Schedule II Valuation and Qualifying Accounts with the related Reports of Independent Registered Public Accounting Firms. These will be filed with the SEC but will not be included in the printed version of the Annual Report to Shareholders.

3. Exhibits: The list of exhibits in the Exhibit Index to this Report is incorporated herein by reference. The following exhibits are required to be filed as exhibits to this Form 10-K:

   23.1 Consent of KPMG LLP, Independent Registered Public Accounting Firm.

   23.2 Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm.

   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.

The exhibits will be filed with the SEC but will not be included in the printed version of the Annual Report to Shareholders.

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Mark A. Ernst
Chairman of the Board, President and
Chief Executive Officer
March 31, 2006

William L. Trubeck
Executive Vice President and Chief Financial
Officer (principal accounting officer)
March 31, 2006

Table of Contents

EXHIBIT INDEX

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

3.1 Restated Articles of Incorporation of H&R Block, Inc., as amended, filed as Exhibit 3.2 to the Company s quarterly report on Form 10-Q for the quarter ended October 31, 2004, file number 1-6089, are incorporated herein by reference.

3.2 Certificate of Amendment of Articles of Incorporation effective September 30, 2004, filed as Exhibit 3.1 to the Company s quarterly report on Form 10-Q for the quarter ended October 31, 2004, file number 1-6089, is incorporated herein by reference.

3.3 Amended and Restated Bylaws of H&R Block, Inc., as amended and restated as of June 9, 2004, filed as Exhibit 3.3 to the Company s annual report on Form 10-K for the year ended April 30, 2004, file number 1-6089, is incorporated herein by reference.

4.1 Indenture dated as of October 20, 1997, among H&R Block, Inc., Block Financial Corporation and Bankers Trust Company, as Trustee, filed as Exhibit 4(a) to the Company s quarterly report on Form 10-Q for the quarter ended October 31, 1997, file number 1-6089, is incorporated herein by reference.

4.2 First Supplemental Indenture, dated as of April 18, 2000, among H&R Block, Inc., Block Financial Corporation, Bankers Trust Company and the Bank of New York, filed as Exhibit 4(a) to the Company s current report on Form 8-K dated April 13, 2000, file number 1-6089, is incorporated herein by reference.

4.3 Officer s Certificate, dated October 26, 2004, in respect of 5.125% Notes due 2014 of Block Financial Corporation, filed as Exhibit 4.1 to the Company s current report on Form 8-K dated October 21, 2004, file number 1-6089, is incorporated herein by reference.

4.4 Form of 8^{1}/2% Senior Note due 2007 of Block Financial Corporation, filed as Exhibit 4(b) to the Company s current report on Form 8-K dated April 13, 2000, file number 1-6089, is incorporated herein by reference.

4.5 Form of 5.125% Note due 2014 of Block Financial Corporation, filed as Exhibit 4.2 to the Company s current report on Form 8-K dated October 21, 2004, file number 1-6089, is incorporated herein by reference.

4.6 Copy of Rights Agreement dated March 25, 1998, between H&R Block, Inc. and ChaseMellon Shareholder Services, L.L.C., filed on July 22, 1998 as Exhibit 1 to the Company s Registration Statement on Form 8-A, file number 1-6089, is incorporated herein by reference.

4.7 Form of Certificate of Designation, Preferences and Rights of Participating Preferred Stock of H&R Block, Inc., filed as Exhibit 4(e) to the Company s annual report on Form 10-K for the fiscal year ended April 30, 1995, file number 1-6089, is incorporated by reference.

4.8 Form of Certificate of Amendment of Certificate of Designation, Preferences and Rights of Participating Preferred Stock of H&R Block, Inc., filed as Exhibit 4(j) to the Company s annual report on Form 10-K for the fiscal year ended April 30, 1998, file number 1-6089, is incorporated by reference.

4.9 Form of Certificate of Designation, Preferences and Rights of Delayed Convertible Preferred Stock of H&R Block, Inc., filed as Exhibit 4(f) to the Company s annual report on Form 10-K for the fiscal year

ended April 30, 1995, file number 1-6089, is incorporated by reference.

10.1* The Company s 2003 Long-Term Executive Compensation Plan, as amended and restated as of September 10, 2003, filed as Exhibit 10.2 to the Company s quarterly report on Form 10-Q for the quarter ended

October 31, 2003, file number 1-6089, is incorporated by reference.

10.2 Form of 2003 Long-Term Executive Compensation Plan Award Agreement, filed as Exhibit 10.2 to the Company s annual report on Form 10-K for the year ended April 30, 2005, file number 1-6089, is incorporated by reference.

10.3* The H&R Block Deferred Compensation Plan for Directors, as Amended and Restated effective July 1, 2002, filed as Exhibit 10.2 to the Company s annual report on Form 10-K for the fiscal year ended April 30, 2002, file number 1-6089, is incorporated by reference.

10.4* The H&R Block Deferred Compensation Plan for Executives, as Amended and Restated July 1, 2002, filed as Exhibit 10.3 to the Company s annual report on Form 10-K for the fiscal year ended April 30, 2002, file number 1-6089, is incorporated by reference.

10.5* Amendment No. 1 to the H&R Block Deferred Compensation Plan for Executives, as Amended and Restated, effective as of March 12, 2003, filed as Exhibit 10.5 to the company s annual report on Form 10-K for the fiscal year ended April 30, 2003, file number 1-6089, is incorporated herein by reference.

10.6* The H&R Block Short-Term Incentive Plan, filed as Exhibit 10.1 to the Company s quarterly report on Form 10-Q for the quarter ended

October 31, 2000, file number 1-6089, is incorporated herein by reference.

10.7* Summary of Non-Employee Director Cash Compensation, filed as Exhibit 10.1 to the Company s current report on Form 8-K dated March 16, 2005, file number 1-6089, is incorporated herein by reference.

10.8* The Company s 1989 Stock Option Plan for Outside Directors, as amended and restated as of September 8, 2004, filed as Exhibit 10.5 to the Company s quarterly report on Form 10-Q for the quarter ended October 31, 2004, file number 1-6089, is incorporated herein by reference.

10.9 Form of 1989 Stock Option Plan for Outside Directors Stock Option Agreement, filed as Exhibit 10.9 to the Company s annual report on Form 10-K for the year ended April 30, 2005, file number 1-6089, is incorporated by reference.

10.10* The H&R Block Stock Plan for Non-Employee Directors, as amended August 1, 2001, filed as Exhibit 10.3 to the Company s quarterly report on Form 10-Q for the quarter ended October 31, 2001, file number 1-6089, is incorporated herein by reference.

10.11* The H&R Block, Inc. 2000 Employee Stock Purchase Plan, as amended August 1, 2001, filed as Exhibit 10.2 to the Company s quarterly report on Form 10-Q for the quarter ended October 31, 2001, file number 1-6089, is incorporated herein by reference.

10.12* The H&R Block, Inc. Executive Survivor Plan (as Amended and Restated) filed as Exhibit 10.4 to the Company s quarterly report on Form 10-Q for the quarter ended October 31, 2000, file number 1-6089, is

incorporated herein by reference.

Table of Contents

10.13* First Amendment to the H&R Block, Inc. Executive Survivor Plan (as Amended and Restated), filed as Exhibit 10.9 to the Company s annual report on Form 10-K for the fiscal year ended April 30, 2002, file number 1-6089, is incorporated by reference.

10.14* Second Amendment to the H&R Block, Inc. Executive Survivor Plan (as Amended and Restated), effective as of March 12, 2003, filed as Exhibit 10.12 to the company s annual report on Form 10-K for the fiscal year ended April 30, 2003, file number 1-6089, is incorporated herein by reference.

10.15* Employment Agreement dated July 16, 1998, between the Company and Mark A. Ernst, filed as Exhibit 10(a) to the Company s quarterly report on Form 10-Q for the quarter ended July 31, 1998, file number 1-6089, is incorporated herein by reference.

10.16* Amendment to Employment Agreement dated June 30, 2000, between HRB Management, Inc. and Mark A. Ernst, filed as Exhibit 10.1 to the Company s quarterly report on Form 10-Q for the quarter ended July 31, 2000, file number 1-6089, is incorporated herein by reference.

10.17* Employment Agreement dated September 7, 1999, between HRB Management, Inc. and Jeffery W. Yabuki, filed as Exhibit 10.4 to the Company s quarterly report on Form 10-Q for the quarter ended

January 31, 2000, file number 1-6089, is incorporated herein by reference.

10.18 *Employment Agreement dated as of October 4, 2004 between HRB Management, Inc. and William L. Trubeck, filed as Exhibit 10.2 to the Company s current report on Form 8-K/A Amendment No. 1 dated September 9, 2004, file number 1-6089, is incorporated herein by reference.

10.19 Employment Agreement dated as of February 2, 2004, between HRB Management, Inc. and Nicholas J. Spaeth, filed as Exhibit 10.16 to the company s annual report on Form 10-K for the fiscal year ended April 30, 2004, file number 1-6089, is incorporated herein by reference.

10.20 * Employment Agreement dated September 2, 2003, between HRB Management, Inc. and Brad C. Iversen, filed as Exhibit 10.1 to the Company s quarterly report on Form 10-Q for the quarter ended

January 31, 2004, file number 1-6089, is incorporated herein by reference.

10.21 * Employment Agreement between Option One Mortgage Corporation and Robert E. Dubrish, executed on February 9, 2002, filed as Exhibit 10.2 to the Company s quarterly report on Form 10-Q for the quarter ended January 31, 2002, file number 1-6089, is incorporated herein by reference.

10.22* Employment Agreement dated December 2, 2002 between HRB Management, Inc. and Tammy S. Serati, filed as Exhibit 10.4 to the quarterly report on Form 10-Q for the quarter ended January 31, 2003, file number 1-6089, is incorporated herein by reference.

10.23* Employment Agreement dated as of April 1, 2003 between HRB Business Services, Inc. and Steven Tait, filed as Exhibit 10.23 to the annual report on Form 10-K for the fiscal year ended April 30, 2003, file number 1-6089, is incorporated herein by reference.

10.24* Employment Agreement dated as of September 15, 2004 between HRB Management, Inc. and Marc West, filed as Exhibit 10.1 to the quarterly report on Form 10-Q for the quarter ended October 31, 2004, file

number 1-6089, is incorporated herein by reference.

10.25* Employment Agreement dated as of June 28, 2004 between H&R Block Services, Inc. and Timothy C. Gokey, filed as Exhibit 10.4 to the quarterly report on Form 10-Q for the quarter ended July 31, 2004, file number 1-6089, is incorporated herein by reference.

10.26* Termination Agreement dated January 7, 2005 between H&R Block, Inc., H&R Block Financial Advisors, Inc. and Brian L. Nygaard, filed as Exhibit 10.1 to the Company s quarterly report on Form 10-Q for the quarter ended January 31, 2005, file number 1-6089, is incorporated herein by reference.

10.27 Second Amended and Restated Refund Anticipation Loan Operations Agreement dated as of June 9, 2003, between H&R Block Services, Inc., Household Tax Masters, Inc. and Beneficial Franchise Company, filed as Exhibit 10.27 to the annual report on Form 10-K for the fiscal year ended April 30, 2003, file number 1-6089, is incorporated herein by reference.

10.28 Fourth Amended and Restated Refund Anticipation Loan Participation Agreement dated as of December 31, 2004, between Block Financial Corporation, HSBC Taxpayer Financial Services, Inc. and Household Tax Masters Acquisition Corporation, filed as Exhibit 10.2 to the quarterly report on Form 10-Q for the quarter ended January 31, 2005, file number 1-6089, is incorporated herein by reference.

10.29 2004 Amendment to Second Amended and Restated Refund Anticipation Loan Operations Agreement dated as of August 20, 2004, by and among H&R Block Services, Inc., Household Tax Masters, Inc., and Beneficial Franchise Company, filed as Exhibit 10.3 to the quarterly report on Form 10-Q for the quarter ended October 31, 2004, file number 1-6089, is incorporated herein by reference.**

10.30 364-Day Credit and Guarantee Agreement dated as of August 11, 2004 among Block Financial Corporation, H&R Block, Inc., Bank of America, N.A., Barclays Bank PLC, HSBC Bank USA, National Association, The Royal Bank of Scotland PLC, JPMorgan Chase Bank, J.P. Morgan Securities, Inc. and other lending parties thereto, filed as Exhibit 10.1 to the quarterly report on Form 10-Q for the quarter ended July 31, 2004, file number 1-6089, is incorporated herein by reference.

10.31 Five-Year Credit and Guarantee Agreement dated as of August 11, 2004 among Block Financial Corporation, H&R Block, Inc., Bank of America, N.A., Barclays Bank PLC, HSBC Bank USA, National Association, The Royal Bank of Scotland PLC, JPMorgan Chase Bank, J.P. Morgan Securities, Inc. and other lending parties thereto, filed as Exhibit 10.2 to the quarterly report on Form 10-Q for the quarter ended July 31, 2004, file number 1-6089, is incorporated herein by reference.

10.32 License Agreement dated as of June 30, 2004 by and between Sears, Roebuck and Co. and H&R Block Services, Inc., filed as Exhibit 10.3 to the quarterly report on Form 10-Q for the quarter ended July 31, 2004, file number 1-6089, is incorporated herein by reference.

10.33 Leasing Operations Supplier Agreement (Products and/or Services) dated as of September 11, 2003 between Wal*Mart Stores, Inc. and H&R Block Services, Inc.

10.34 Standard Form of Agreement Between Owner and Designer/Builder dated as of May 5, 2003 by and between H&R Block Tax Services, Inc. and J.E. Dunn Construction Company, filed as Exhibit 10.2 to the quarterly report on Form 10-Q for the quarter ended October 31, 2004, file number 1-6089, is incorporated herein by reference.

10.35

Second Amended and Restated Loan Purchase and Contribution Agreement dated as of November 14, 2003 between Option One Loan Warehouse Corporation and Option One Mortgage Corporation, filed as Exhibit 10.3 to the quarterly report on Form 10-Q for the quarter

Table of Contents

ended January 31, 2005, file number 1-6089, is incorporated herein by reference.

10.36 Amended and Restated Sales and Servicing Agreement dated November 12, 2004 among Option One Owner Trust 2003-5, Option One Loan Warehouse Corporation, Option One Mortgage Corporation and Wells Fargo Bank, N.A., filed as Exhibit 10.4 to the quarterly report on Form 10-Q for the quarter ended January 31, 2005, file number 1-6089, is incorporated herein by reference.

10.37 Note Purchase Agreement dated November 14, 2003 between Option One Owner Trust 2003-5, Option One Loan Warehouse Corporation and Citigroup Global Markets Realty Corp., filed as Exhibit 10.5 to the quarterly report on Form 10-Q for the quarter ended January 31, 2005, file number 1-6089, is incorporated herein by reference.

10.38 Amendment Number One to the Note Purchase Agreement, dated November 14, 2004, among Option One Owner Trust 2003-5, Option One Loan Warehouse Corporation and Citigroup Global Markets Realty Corp., filed as Exhibit 10.6 to the quarterly report on Form 10-Q for the quarter ended January 31, 2005, file number 1-6089, is incorporated herein by reference.

10.39 Indenture dated as of November 1, 2003 between Option One Owner Trust 2003-5 and Wells Fargo Bank Minnesota, National Association, filed as Exhibit 10.7 to the quarterly report on Form 10-Q for the quarter ended January 31, 2005, file number 1-6089, is incorporated herein by reference.

10.40 Second Amended and Restated Sale and Servicing Agreement dated as of March 8, 2005 among Option One Owner Trust 2001-2, Option One Loan Warehouse Corporation, Option One Mortgage Corporation and Wells Fargo Bank Minnesota, National Association, filed as Exhibit 10.40 to the Company s annual report on Form 10-K for the year ended April 30, 2005, file number 1-6089, is incorporated by reference.

10.41 Amended and Restated Note Purchase Agreement dated as of November 24, 2003, among Option One Owner Trust 2001-2, Option One Loan Warehouse Corporation and Bank of America, N.A., filed as Exhibit 10.11 to the quarterly report on Form 10-Q for the quarter ended January 31, 2005, file number 1-6089, is incorporated herein by reference.

10.42 Amendment Number One to the Amended and Restated Note Purchase Agreement, dated as of December 17, 2004, among Option One Owner Trust 2001-2, Option One Loan Warehouse Corporation and Bank of America, N.A., filed as Exhibit 10.12 to the quarterly report on Form 10-Q for the quarter ended January 31, 2005, file number 1-6089, is incorporated herein by reference.

10.43 Amendment Number Two to the Amended and Restated Note Purchase Agreement, dated as of February 15, 2005, among Option One Owner Trust 2001-2, Option One Loan Warehouse Corporation and Bank of America, N.A., filed as Exhibit 10.13 to the quarterly report on Form 10-Q for the quarter ended January 31, 2005, file number 1-6089, is incorporated herein by reference.

10.44 Amended and Restated Indenture dated as of November 25, 2003 between Option One Owner Trust 2001-2 and Wells Fargo Bank Minnesota, National Association, filed as Exhibit 10.14 to the quarterly report on Form 10-Q for the quarter ended January 31, 2005, file number 1-6089, is incorporated herein by reference.

10.45 Letter Agreement dated as of April 1, 2000 among Option One Mortgage Corporation and Bank of America N.A., filed as Exhibit 10.15 to the quarterly report on Form 10-Q for the quarter ended

January 31, 2005, file number 1-6089, is incorporated by reference.

10.46 Amended and Restated Note Purchase Agreement dated as of March 18, 2005 among Option One Owner Trust 2002-3, UBS Real Estate Securities Inc. and Option One Mortgage Corporation, filed as Exhibit 10.46 to the Company s annual report on Form 10-K for the year ended April 30, 2005, file number 1-6089, is incorporated by reference.

10.47 Amended and Restated Sale and Servicing Agreement dated as of March 18, 2005, among Option One Owner Trust 2002-3, Option One Loan Warehouse Corporation, Option One Mortgage Corporation and Wells Fargo Bank, N.A. , filed as Exhibit 10.47 to the Company s annual report on Form 10-K for the year ended April 30, 2005, file number 1-6089, is incorporated by reference.

10.48 Second Amended and Restated Sale and Servicing Agreement dated as of April 29, 2005 among Option One Owner Trust 2001-1A, Option One Loan Warehouse Corporation, Option One Mortgage Corporation and Wells Fargo Bank, N.A. , filed as Exhibit 10.48 to the Company s annual report on Form 10-K for the year ended April 30, 2005, file number 1-6089, is incorporated by reference.

10.49 Indenture dated as of April 1, 2001 between Option One Owner Trust 2001-1A and Wells Fargo Bank Minnesota, National Association, filed as Exhibit 10.49 to the Company s annual report on Form 10-K for the year ended April 30, 2005, file number 1-6089, is incorporated by reference.

10.50 Amendment Number Four, dated April 16, 2004, to Indenture between Option One Owner Trust 2001-1A and Wells Fargo Bank Minnesota, National Association, as amended and restated through and including November 25, 2003, filed as Exhibit 10.50 to the Company s annual report on Form 10-K for the year ended April 30, 2005, file number 1-6089, is incorporated by reference.

10.51 Amendment Number Five, dated April 30, 2004, to Indenture between Option One Owner Trust 2001-1A and Wells Fargo Bank Minnesota, National Association, as amended and restated through and including November 25, 2003, filed as Exhibit 10.51 to the Company s annual report on Form 10-K for the year ended April 30, 2005, file number 1-6089, is incorporated by reference.

10.52 Amendment Number Six, dated April 29, 2005, to Indenture between Option One Owner Trust 2001-1A and Wells Fargo Bank Minnesota, National Association, as amended and restated through and including November 25, 2003, filed as Exhibit 10.52 to the Company s annual report on Form 10-K for the year ended April 30, 2005, file number 1-6089, is incorporated by reference.

10.53 Amended and Restated Note Purchase Agreement dated as of April 16, 2004, among Option One Owner Trust 2001-1A, Option One Loan Warehouse Corporation and Greenwich Capital Financial Products, Inc. , filed as Exhibit 10.53 to the Company s annual report on Form 10-K for the year ended April 30, 2005, file number 1-6089, is incorporated by reference.

10.54 Amendment No. 1 to Amended and Restated Note Purchase Agreement dated as of April 29, 2005 among Option One Owner Trust 2001-1A, Greenwich Capital Financial Products, Inc. and Option One Loan Warehouse Corporation, filed as Exhibit 10.54 to the Company s annual report on Form 10-K for the year ended April 30, 2005, file number 1-6089, is incorporated by reference.

Table of Contents

10.55 Second Amended and Restated Sale and Servicing Agreement dated as of April 29, 2005 among Option One Owner Trust 2001-1B, Option One Loan Warehouse Corporation, Option One Mortgage Corporation and Wells Fargo Bank, N.A., filed as Exhibit 10.55 to the Company s annual report on Form 10-K for the year ended April 30, 2005, file number 1-6089, is incorporated by reference.

10.56 Indenture dated as of April 1, 2001 between Option One Owner Trust 2001-1B and Wells Fargo Bank Minnesota, National Association, filed as Exhibit 10.56 to the Company s annual report on Form 10-K for the year ended April 30, 2005, file number 1-6089, is incorporated by reference.

10.57 Amendment Number Five, dated April 16, 2004, to Indenture between Option One Owner Trust 2001-1B and Wells Fargo Bank Minnesota, National Association, as amended and restated through and including November 25, 2003, filed as Exhibit 10.57 to the Company s annual report on Form 10-K for the year ended April 30, 2005, file number 1-6089, is incorporated by reference.

10.58 Amendment Number Six, dated April 30, 2004, to Indenture between Option One Owner Trust 2001-1B and Wells Fargo Bank Minnesota, National Association, as amended and restated through and including November 25, 2003, filed as Exhibit 10.58 to the Company s annual report on Form 10-K for the year ended April 30, 2005, file number 1-6089, is incorporated by reference.

10.59 Amendment Number Six, dated April 29, 2005, to Indenture between Option One Owner Trust 2001-1B and Wells Fargo Bank Minnesota, National Association, as amended and restated through and including November 25, 2003, filed as Exhibit 10.59 to the Company s annual report on Form 10-K for the year ended April 30, 2005, file number 1-6089, is incorporated by reference.

10.60 Amended and Restated Note Purchase Agreement dated as of April 16, 2004, among Option One Owner Trust 2001-1B, Option One Loan Warehouse Corporation and Steamboat Funding Corporation, filed as Exhibit 10.60 to the Company s annual report on Form 10-K for the year ended April 30, 2005, file number 1-6089, is incorporated by reference.

10.61 Amendment No. 1 to Amended and Restated Note Purchase Agreement dated as of April 29, 2005 among Option One Owner Trust 2001-1B, Steamboat Funding Corporation and Option One Loan Warehouse Corporation, filed as Exhibit 10.61 to the Company s annual report on Form 10-K for the year ended April 30, 2005, file number 1-6089, is incorporated by reference.

10.62 Sale and Servicing Agreement dated as of August 8, 2003 among Option One Owner Trust 2003-4, Option One Loan Warehouse Corporation, Option One Mortgage Corporation and Wells Fargo Bank Minnesota, National Association, filed as Exhibit 10.62 to the Company s annual report on Form 10-K for the year ended April 30, 2005, file number 1-6089, is incorporated by reference.

10.63 Amendment No. 1 to Sale and Servicing Agreement dated as of August 6, 2004 among Option One Owner Trust 2003-4, Option One Loan Warehouse Corporation, Option One Mortgage Corporation and Wells Fargo Bank Minnesota, National Association, filed as Exhibit 10.63 to the Company s annual report on Form 10-K for the year ended April 30, 2005, file number 1-6089, is incorporated by reference.

10.64 Amendment No. 2 to Sale and Servicing Agreement dated as of August 24, 2004 among Option One Owner Trust 2003-4, Option One Loan Warehouse Corporation, Option One Mortgage Corporation and Wells Fargo Bank Minnesota, National Association, filed as Exhibit 10.64 to the Company s annual report on Form 10-K for the year ended April 30, 2005, file number 1-6089, is incorporated by reference.

10.65 Indenture dated as of August 8, 2003 between Option One Owner Trust 2003-4 and Wells Fargo Bank Minnesota, National Association, filed as Exhibit 10.65 to the Company s annual report on Form 10-K for the year ended April 30, 2005, file number 1-6089, is incorporated by reference.

10.66 Note Purchase Agreement dated as of August 8, 2003 among Option One Mortgage Corporation, Option One Loan Warehouse Corporation, Option One Owner Trust 2003-4, Falcon Asset Securitization Corporation, Jupiter Securitization Corporation, Preferred Receivables Funding Corporation, financial institutions thereto and Bank One, NA, filed as Exhibit 10.66 to the Company s annual report on Form 10-K for the year ended April 30, 2005, file number 1-6089, is incorporated by reference.

10.67 Amendment No. 1 to Note Purchase Agreement dated as of August 6, 2004 among Option One Mortgage Corporation, Option One Loan Warehouse Corporation, Option One Owner Trust 2003-4, Falcon Asset Securitization Corporation, Jupiter Securitization Corporation, Preferred Receivables Funding Corporation, financial institutions thereto and Bank One, NA, filed as Exhibit 10.67 to the Company s annual report on Form 10-K for the year ended April 30, 2005, file number 1-6089, is incorporated by reference.

10.68 Amendment No. 2 to Note Purchase Agreement dated as of August 24, 2004 among Option One Mortgage Corporation, Option One Loan Warehouse Corporation, Option One Owner Trust 2003-4, Falcon Asset Securitization Corporation, Jupiter Securitization Corporation, Preferred Receivables Funding Corporation, financial institutions thereto and Bank One, NA, filed as Exhibit 10.68 to the Company s annual report on Form 10-K for the year ended April 30, 2005, file number 1-6089, is incorporated by reference.

10.69 Amendment No. 3 to Note Purchase Agreement dated as of October 29, 2004 among Option One Mortgage Corporation, Option One Loan Warehouse Corporation, Option One Owner Trust 2003-4, Falcon Asset Securitization Corporation, Jupiter Securitization Corporation, Preferred Receivables Funding Corporation, financial institutions thereto and Bank One, NA, filed as Exhibit 10.69 to the Company s annual report on Form 10-K for the year ended April 30, 2005, file number 1-6089, is incorporated by reference.

10.70 Amendment No. 4 to Note Purchase Agreement dated as of November 30, 2004 among Option One Mortgage Corporation, Option One Loan Warehouse Corporation, Option One Owner Trust 2003-4, Falcon Asset Securitization Corporation, Jupiter Securitization Corporation, Preferred Receivables Funding Corporation, financial institutions thereto and Bank One, NA, filed as Exhibit 10.70 to the Company s annual report on Form 10-K for the year ended April 30, 2005, file number 1-6089, is incorporated by reference.

10.71 Amendment No. 5 to Note Purchase Agreement dated January 31, 2005, among Option One Mortgage Corporation, Option One Loan Warehouse Corporation, Option One Owner Trust 2003-4, Falcon Asset Securitization Corporation, Jupiter Securitization Corporation, Preferred Receivables Funding Corporation, financial institutions

Table of Contents

thereto and Bank One, NA, filed as Exhibit 10.71 to the Company s annual report on Form 10-K for the year ended April 30, 2005, file number 1-6089, is incorporated by reference.

12 Computation of Ratio of Earnings to Fixed Charges for the five years ended April 30, 2005.

21 Subsidiaries of the Company, filed as Exhibit 21 to the Company s annual report on Form 10-K for the year ended April 30, 2005, file number 1-6089, is incorporated by reference.

23.1 Consent of KPMG LLP, Independent Registered Public Accounting Firm.

23.2 Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm.

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.

* Indicates management contracts, compensatory plans or arrangements.

** Confidential Information has been omitted from this exhibit and filed separately with the Commission pursuant to a confidential treatment request under Rule 24b-2.