

H&R BLOCK INC
Form 10-Q
September 04, 2009

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-Q

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended July 31, 2009**
- OR
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to**

Commission file number 1-6089

H&R Block, Inc.
(Exact name of registrant as specified in its charter)

MISSOURI
**(State or other jurisdiction of
incorporation or organization)**

44-0607856
**(I.R.S. Employer
Identification No.)**

One H&R Block Way
Kansas City, Missouri 64105
(Address of principal executive offices, including zip code)

(816) 854-3000
(Registrant's telephone number, including area code)

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

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

(Do not check if a smaller reporting company)

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

The number of shares outstanding of the registrant's Common Stock, without par value, at the close of business on August 31, 2009 was 335,306,120 shares.

Form 10-Q for the Period Ended July 31, 2009

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Table of Contents**CONDENSED CONSOLIDATED BALANCE SHEETS** (amounts in 000s, except share and per share amounts)

	July 31, 2009	April 30, 2009
	(Unaudited)	
ASSETS		
Cash and cash equivalents	\$ 1,006,303	\$ 1,654,663
Cash and cash equivalents restricted	46,639	51,656
Receivables, less allowance for doubtful accounts of \$129,433 and \$128,541	379,177	512,814
Prepaid expenses and other current assets	396,027	351,947
Total current assets	1,828,146	2,571,080
Mortgage loans held for investment, less allowance for loan losses of \$91,691 and \$84,073	707,712	744,899
Property and equipment, at cost, less accumulated depreciation and amortization of \$643,978 and \$625,075	359,408	368,289
Intangible assets, net	379,622	385,998
Goodwill	852,018	850,230
Other assets	418,856	439,226
Total assets	\$ 4,545,762	\$ 5,359,722
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities:		
Customer banking deposits	\$ 712,008	\$ 854,888
Accounts payable, accrued expenses and other current liabilities	648,470	705,945
Accrued salaries, wages and payroll taxes	101,410	259,698
Accrued income taxes	330,145	543,967
Current portion of long-term debt	6,093	8,782
Federal Home Loan Bank borrowings	25,000	25,000
Total current liabilities	1,823,126	2,398,280
Long-term debt	1,032,395	1,032,122
Federal Home Loan Bank borrowings	75,000	75,000
Other noncurrent liabilities	424,527	448,461
Total liabilities	3,355,048	3,953,863
Commitments and contingencies		
Stockholders equity:		
Common stock, no par, stated value \$.01 per share, 800,000,000 shares authorized, shares issued of 444,176,510	4,442	4,442
Additional paid-in capital	824,212	836,477

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Accumulated other comprehensive income (loss)	(2,849)	(11,639)
Retained earnings	2,437,017	2,671,437
Less treasury shares, at cost	(2,072,108)	(2,094,858)
Total stockholders' equity	1,190,714	1,405,859
Total liabilities and stockholders' equity	\$ 4,545,762	\$ 5,359,722

See Notes to Condensed Consolidated Financial Statements

Table of Contents**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)**(Unaudited, amounts in 000s,
except per share amounts)

Three Months Ended July 31,	2009	2008
Revenues:		
Service revenues	\$ 247,985	\$ 240,720
Interest income	12,287	17,847
Product and other revenues	15,233	13,342
	275,505	271,909
Operating expenses:		
Cost of revenues	386,450	360,138
Selling, general and administrative	103,217	123,386
	489,667	483,524
Operating loss	(214,162)	(211,615)
Other income (expense), net	3,289	(1,355)
Loss from continuing operations before tax benefit	(210,873)	(212,970)
Income tax benefit	(80,256)	(84,547)
Net loss from continuing operations	(130,617)	(128,423)
Net loss from discontinued operations	(3,017)	(4,296)
Net loss	\$ (133,634)	\$ (132,719)
Basic and diluted loss per share:		
Net loss from continuing operations	\$ (0.39)	\$ (0.39)
Net loss from discontinued operations	(0.01)	(0.02)
Net loss	\$ (0.40)	\$ (0.41)
Basic and diluted shares	334,533	327,141
Dividends paid per share	\$ 0.15	\$ 0.14
Comprehensive income (loss):		
Net loss	\$ (133,634)	\$ (132,719)
Change in unrealized gain on available-for-sale securities, net	(747)	(1,967)

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Change in foreign currency translation adjustments	9,537	314
Comprehensive loss	\$ (124,844)	\$ (134,372)

See Notes to Condensed Consolidated Financial Statements

Table of Contents**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(unaudited, amounts in 000s)

Three Months Ended July 31,	2009	2008
Net cash used in operating activities	\$ (454,577)	\$ (364,923)
Cash flows from investing activities:		
Principal repayments on mortgage loans held for investment, net	19,264	31,619
Purchases of property and equipment, net	(8,760)	(14,648)
Other, net	4,856	(901)
Net cash provided by investing activities	15,360	16,070
Cash flows from financing activities:		
Repayments of Federal Home Loan Bank borrowings	-	(40,000)
Proceeds from Federal Home Loan Bank borrowings	-	15,000
Customer banking deposits, net	(143,199)	(8,795)
Dividends paid	(50,287)	(46,790)
Acquisition of treasury shares	(3,483)	(4,116)
Proceeds from issuance of common stock, net	6,651	28,507
Other, net	(25,888)	(14,387)
Net cash used in financing activities	(216,206)	(70,581)
Effects of exchange rates on cash	7,063	-
Net decrease in cash and cash equivalents	(648,360)	(419,434)
Cash and cash equivalents at beginning of the period	1,654,663	664,897
Cash and cash equivalents at end of the period	\$ 1,006,303	\$ 245,463
Supplementary cash flow data:		
Income taxes paid	\$ 155,804	\$ 83,111
Interest paid on borrowings	26,168	27,258
Interest paid on deposits	1,318	4,048
Transfers of loans to foreclosed assets	3,797	53,469

See Notes to Condensed Consolidated Financial Statements

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(unaudited)

1. Summary of Significant Accounting Policies**Basis of Presentation**

The condensed consolidated balance sheet as of July 31, 2009, the condensed consolidated statements of operations and comprehensive income (loss) for the three months ended July 31, 2009 and 2008, and the condensed consolidated statements of cash flows for the three months ended July 31, 2009 and 2008 have been prepared by the Company, without audit. In the opinion of management, all adjustments, which include only normal recurring adjustments, necessary to present fairly the financial position, results of operations and cash flows at July 31, 2009 and for all periods presented have been made.

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

Certain reclassifications have been made to prior year amounts to conform to the current year presentation. In addition, we realigned our segments as discussed in note 12, and accordingly restated segment disclosures in prior periods. These changes had no effect on our results of operations or stockholders' equity as previously reported. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted. These condensed consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in our April 30, 2009 Annual Report to Shareholders on Form 10-K. All amounts presented herein as of April 30, 2009 or for the year then ended, are derived from our April 30, 2009 Annual Report to Shareholders on Form 10-K. We have evaluated subsequent events through September 4, 2009, the date of issuance of our condensed consolidated financial statements.

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. Significant estimates, assumptions and judgments are applied in the determination of our allowance for loan losses, potential losses from loan repurchase and indemnity obligations associated with our discontinued mortgage business, contingent losses associated with pending litigation, fair value of reporting units, reserves for uncertain tax positions and related matters. We revise our estimates when facts and circumstances dictate. However, future events and their effects cannot be determined with absolute certainty. As such, actual results could differ materially from those estimates.

Seasonality of Business

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

Concentrations of Risk

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

2. Recent Events

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RSM McGladrey, Inc. (RSM) and McGladrey & Pullen LLP (M&P), an independent registered public accounting firm, collaborate to provide accounting, tax and consulting services to clients under an alternative practice structure. RSM and M&P also share in certain common overhead costs through an

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administrative services agreement. These services are provided by, and coordinated through, RSM, for which RSM receives a management fee. On July 21, 2009, M&P provided 210 days notice of its intent to terminate the administrative services agreement. The effect of the notice will be to terminate the alternative practice structure on February 16, 2010, unless revoked or modified prior to that time. RSM and M&P are engaged in arbitration to determine several of their rights and responsibilities under their contractual obligations to each other. An arbitration hearing is scheduled for November 2009. RSM and M&P are also engaged in negotiations to determine if there are mutually agreeable changes to the current arrangements that would allow our collaboration to continue. There are no assurances as to the outcome.

3. Earnings (Loss) Per Share and Stockholders Equity

Basic and diluted loss per share is computed using the two-class method per FASB Staff Position EITF 03-6-1,

Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities (FSP 03-6-1). See note 13 for additional information. The two-class method is an earnings allocation formula that determines net income per share for each class of common stock and participating security according to dividends declared and participation rights in undistributed earnings. Per share amounts are computed by dividing net income from continuing operations attributable to common shareholders by the weighted average shares outstanding during each period. The dilutive effect of potential common shares is included in diluted earnings per share except in those periods with a loss from continuing operations. Diluted earnings per share excludes the impact of shares of common stock issuable upon the lapse of certain restrictions or the exercise of options to purchase 19.4 million shares and 25.7 million shares for the three months ended July 31, 2009 and 2008, respectively, as the effect would be antidilutive due to the net loss from continuing operations during each period.

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

(in 000s, except per share amounts)

Three Months Ended July 31,	2009	2008
Net loss from continuing operations attributable to shareholders	\$ (130,617)	\$ (128,423)
Income allocated to participating securities (nonvested shares)	(367)	(199)
Net loss from continuing operations attributable to common shareholders	\$ (130,984)	\$ (128,622)
Basic weighted average common shares	334,533	327,141
Potential dilutive shares from stock options and nonvested shares	-	-
Convertible preferred stock	-	-
Dilutive weighted average common shares	334,533	327,141
Earnings (loss) per share from continuing operations:		
Basic	\$ (0.39)	\$ (0.39)
Diluted	(0.39)	(0.39)

The weighted average shares outstanding for the three months ended July 31, 2009 increased to 334.5 million from 327.1 million for the three months ended July 31, 2008, primarily due to the issuance of shares of our common stock in October 2008.

During the three months ended July 31, 2009 and 2008, we issued 1.4 million and 2.3 million shares of common stock, respectively, due to the exercise of stock options, employee stock purchases and vesting of nonvested shares. During the three months ended July 31, 2009, we acquired 0.2 million shares of our common stock at an aggregate cost of \$3.5 million, and during the three months ended July 31, 2008, we acquired 0.2 million shares at an aggregate cost of \$4.1 million. Shares acquired during these periods represented shares swapped or surrendered to us in connection with the vesting of nonvested shares and the exercise of stock options.

At July 31, 2009, we had accrued but unpaid dividends totaling \$50.5 million. This amount is included in accounts payable, accrued expenses and other current liabilities on the condensed consolidated balance sheet.

During the three months ended July 31, 2009, we granted 4.0 million stock options and 0.8 million nonvested shares and units in accordance with our stock-based compensation plans. The weighted average fair value of options granted was \$3.14 for management options and \$2.70 for options granted to

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our seasonal associates. Stock-based compensation expense of our continuing operations totaled \$7.3 million and \$4.5 million for the three months ended July 31, 2009 and 2008, respectively. At July 31, 2009, unrecognized compensation cost for options totaled \$17.0 million, and for nonvested shares and units totaled \$26.4 million.

4. Mortgage Loans Held for Investment and Related Assets

The composition of our mortgage loan portfolio as of July 31, 2009 and April 30, 2009 is as follows:

	July 31, 2009		April 30, 2009	
	Amount	% of Total	Amount	% of Total
Adjustable-rate loans	\$ 501,112	63%	\$ 534,943	65%
Fixed-rate loans	292,014	37%	286,894	35%
	793,126	100%	821,837	100%
Unamortized deferred fees and costs	6,277		7,135	
Less: Allowance for loan losses	(91,691)		(84,073)	
	\$ 707,712		\$ 744,899	

Activity in the allowance for loan losses for the three months ended July 31, 2009 and 2008 is as follows:

Three Months Ended July 31,	2009	2008
Balance, beginning of the period	\$ 84,073	\$ 45,401
Provision	13,600	14,991
Recoveries	28	-
Charge-offs	(6,010)	(13,539)
Balance, end of the period	\$ 91,691	\$ 46,853

Our loan loss reserve as a percent of mortgage loans was 11.56% at July 31, 2009, compared to 10.23% at April 30, 2009.

In cases where we modify a loan and in so doing grant a concession to a borrower experiencing financial difficulty, the modification is considered a troubled debt restructuring (TDR). TDR loans totaled \$161.6 million and \$160.7 million at July 31, 2009 and April 30, 2009, respectively. The principal balance of impaired loans as of

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July 31, 2009 and April 30, 2009 is as follows:

(in 000s)

	July 31, 2009	April 30, 2009
60 - 89 days	\$ 14,519	\$ 21,415
90+ days, non-accrual	148,603	121,685
TDR loans, accrual	90,275	60,044
TDR loans, non-accrual	71,295	100,697
	\$ 324,692	\$ 303,841

Activity related to our real estate owned is as follows:

(in 000s)

Three Months Ended July 31,	2009	2008
Balance, beginning of the period	\$ 44,533	\$ 350
Additions	3,797	53,469
Sales	(4,348)	-
Writedowns	(1,241)	(5,409)
Balance, end of the period	\$ 42,741	\$ 48,410

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Changes in the carrying amount of goodwill for the three months ended July 31, 2009 consist of the following:

(in 000s)

	April 30, 2009	Additions	Impairment	Other	July 31, 2009
Tax Services	\$ 447,591	\$ 1,004	\$ -	\$ 1,483	\$ 450,078
Business Services	402,639	-	-	(699)	401,940
Total	\$ 850,230	\$ 1,004	\$ -	\$ 784	\$ 852,018

We test goodwill for impairment annually at the beginning of our fourth quarter, or more frequently if events occur which could, more likely than not, reduce the fair value of a reporting unit's net assets below its carrying value.

We considered the July 21, 2009 notice by M&P of its intent to terminate the administrative services agreement with RSM to represent a significant change in circumstances requiring an interim evaluation of the fair value of our RSM reporting unit. Goodwill of this reporting unit totaled \$372.7 million at July 31, 2009. The net carrying value of other intangible assets of RSM totaled \$96.0 million at July 31, 2009, including \$50.8 million for an indefinite-lived trade name asset. We have concluded that, as of July 31, 2009, the fair value of this reporting unit exceeds its carrying value and also that the net carrying value of other intangible assets is recoverable.

Our conclusion is based on our current assumptions, including, but not limited to, those listed below.

We have assumed that our noncompete rights are enforceable.

We have assumed that, more likely than not, RSM and M&P will continue to collaborate; or, in the event of a separation, RSM will successfully establish an alliance with other attest firms.

We have assumed that ongoing negotiations between RSM and M&P will not result in modifications of their relationship that would be materially adverse to the financial interests of RSM.

In the event of a separation, we have made various assumptions concerning client retention and post-separation operating margins.

In the event of a separation, we have assumed M&P would be able to repay its indebtedness to RSM.

It is difficult to predict the outcome of the above matters, including the outcome of mitigating factors that we are currently pursuing. However, it is possible that changes in our assumptions, based on future events or circumstances, could result in changes in our fair value estimates and corresponding impairment charges.

Intangible assets consist of the following:

(in 000s)

	July 31, 2009			April 30, 2009		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Tax Services:						
Customer relationships	\$ 54,907	\$ (26,938)	\$ 27,969	\$ 54,655	\$ (25,267)	\$ 29,388

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Noncompete agreements	23,271	(21,272)	1,999	23,263	(20,941)	2,322
Reacquired franchise rights	229,438	(2,942)	226,496	229,438	(1,838)	227,600
Franchise agreements	19,201	(853)	18,348	19,201	(533)	18,668
Purchased technology	12,500	(4,730)	7,770	12,500	(4,240)	8,260
Trade name	1,325	(250)	1,075	1,025	(217)	808
Business Services:						
Customer relationships	146,011	(113,408)	32,603	146,040	(111,017)	35,023
Noncompete agreements	33,061	(20,468)	12,593	33,068	(19,908)	13,160
Trade name amortizing	2,600	(2,600)	-	2,600	(2,600)	-
Trade name non-amortizing	55,637	(4,868)	50,769	55,637	(4,868)	50,769
	\$ 577,951	\$ (198,329)	\$ 379,622	\$ 577,427	\$ (191,429)	\$ 385,998

Amortization of intangible assets for the three months ended July 31, 2009 and 2008 was \$6.9 million and \$5.6 million, respectively. Estimated amortization of intangible assets for fiscal years 2010 through 2014 is \$28.8 million, \$26.5 million, \$23.5 million, \$19.2 million and \$15.8 million, respectively.

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We file a consolidated federal income tax return in the United States and file tax returns in various state and foreign jurisdictions. Consolidated tax returns for the years 1999 through 2007 are currently under examination by the Internal Revenue Service (IRS). Tax years prior to 1999 are closed by statute. Historically, tax returns in various foreign and state jurisdictions are examined and settled upon completion of the exam.

During the three months ended July 31, 2009, we accrued an additional \$1.2 million of interest and penalties related to our uncertain tax positions. We had unrecognized tax benefits of \$126.0 million and \$124.6 million at July 31, 2009 and April 30, 2009, respectively. The unrecognized tax benefits increased \$1.4 million in the current year, due primarily to positions related to prior years. We have classified the liability for unrecognized tax benefits, including corresponding accrued interest, as long-term at July 31, 2009, which is included in other noncurrent liabilities on the condensed consolidated balance sheet. Amounts that we expect to pay, or for which statutes expire, within the next twelve months have been included in accounts payable, accrued expenses and other current liabilities on the condensed consolidated balance sheet.

Based upon the expiration of statutes of limitations, payments of tax and other factors in several jurisdictions, we believe it is reasonably possible that the total amount of previously unrecognized tax benefits may decrease by approximately \$18 million within twelve months of July 31, 2009.

7. Interest Income and Expense

The following table shows the components of interest income and expense of our continuing operations:

(in 000s)

Three Months Ended July 31,	2009	2008
Interest income:		
Mortgage loans, net	\$ 7,896	\$ 13,265
Other	4,391	4,582
	\$ 12,287	\$ 17,847
Interest expense:		
Borrowings	\$ 18,957	\$ 18,172
Deposits	2,049	4,043
FHLB advances	509	1,328
	\$ 21,515	\$ 23,543

8. Fair Value

The following table presents for each hierarchy level the financial assets that are measured at fair value on both a recurring and non-recurring basis at July 31, 2009:

(dollars in 000s)

Total	Level 1	Level 2	Level 3
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Recurring:				
Available-for-sale securities	\$ 42,430	\$ -	\$ 42,430	\$ -
Non-recurring:				
Impaired mortgage loans held for investment	248,529	-	-	248,529
	\$ 290,959	\$ -	\$ 42,430	\$ 248,529
As a percentage of total assets	6.4%	-%	0.9%	5.5%

There were no significant changes to the unobservable inputs used in determining the fair values of our level 2 and level 3 financial assets.

The carrying amounts and estimated fair values of our financial instruments at July 31, 2009 are as follows:

(in 000s)

	Carrying Amount	Estimated Fair Value
Mortgage loans held for investment	\$ 707,712	\$ 549,497
IRAs and other time deposits	479,758	479,375
Long-term debt	1,038,488	1,064,855

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H&R Block Bank (HRB Bank) files its regulatory Thrift Financial Report (TFR) on a calendar quarter basis with the Office of Thrift Supervision (OTS). The following table sets forth HRB Bank's regulatory capital requirements at June 30, 2009, as calculated in the most recently filed TFR:

	(dollars in 000s)					
	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total risk-based capital ratio ⁽¹⁾	\$ 142,490	21.9%	\$ 52,020	8.0%	\$ 65,025	10.0%
Tier 1 risk-based capital ratio ⁽²⁾	\$ 133,811	20.6%	n/a	n/a	\$ 39,015	6.0%
Tier 1 capital ratio (leverage) ⁽³⁾	\$ 133,811	13.6%	\$ 118,381	12.0%	\$ 49,325	5.0%
Tangible equity ratio ⁽⁴⁾	\$ 133,811	13.6%	\$ 14,798	1.5%	n/a	n/a

⁽¹⁾ Total risk-based capital divided by risk-weighted assets.

⁽²⁾ Tier 1 (core) capital less deduction for low-level recourse and residual interest divided by risk-weighted assets.

⁽³⁾ Tier 1 (core) capital divided by adjusted total assets.

⁽⁴⁾ Tangible capital divided by tangible assets.

As of July 31, 2009, HRB Bank's leverage ratio was 13.8%.

10. Commitments and Contingencies

Changes in deferred revenue balances related to our Peace of Mind (POM) program, the current portion of which is included in accounts payable, accrued expenses and other current liabilities and the long-term portion of which is included in other noncurrent liabilities in the condensed consolidated balance sheets, are as follows:

Three Months Ended July 31,	(in 000s)	
	2009	2008
Balance, beginning of period	\$ 146,807	\$ 140,583
Amounts deferred for new guarantees issued	583	513
Revenue recognized on previous deferrals	(27,913)	(27,241)
Balance, end of period	\$ 119,477	\$ 113,855

The following table summarizes certain of our other contractual obligations and commitments:

As of	July 31, 2009	April 30, 2009
Franchise Equity Lines of Credit undrawn commitment	\$ 35,976	\$ 38,055
Contingent business acquisition obligations	24,504	24,165
Media advertising purchase obligation	45,768	45,768

We routinely enter into contracts that include embedded indemnifications that have characteristics similar to guarantees. Guarantees and indemnifications of the Company and its subsidiaries include obligations to protect counterparties 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 terms of the indemnities may vary and in many cases are 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 guarantees and indemnifications relating to our continuing operations is not material as of July 31, 2009.

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Discontinued Operations

Sand Canyon Corporation (SCC), formerly Option One Mortgage Corporation, maintains recourse with respect to loans previously sold or securitized under indemnification of loss provisions relating to breach of representations and warranties made to purchasers or insurers.

At July 31, 2009 and April 30, 2009, our loan repurchase liability totaled \$202.4 million and \$206.6 million, respectively. This liability is included in accounts payable, accrued expenses and other current liabilities on our consolidated balance sheets.

11. Litigation and Related Contingencies

We are party to investigations, legal claims and lawsuits arising out of our business operations. We accrue our best estimate of the probable loss upon resolution of such matters. Amounts accrued, including obligations under indemnifications, totaled \$25.3 million and \$27.9 million at July 31, 2009 and April 30, 2009, respectively.

RAL Litigation

We have been named as a defendant in numerous lawsuits throughout the country regarding our refund anticipation loan programs (collectively, RAL Cases). The RAL Cases have involved a variety of legal theories asserted by plaintiffs. These theories include allegations that, among other things: disclosures in the RAL applications were inadequate, misleading and untimely; the RAL interest rates were usurious and unconscionable; we did not disclose that we would receive part of the finance charges paid by the customer for such loans; untrue, misleading or deceptive statements in marketing RALs; breach of state laws on credit service organizations; breach of contract, unjust enrichment, unfair and deceptive acts or practices; violations of the federal Racketeer Influenced and Corrupt Organizations Act; violations of the federal Fair Debt Collection Practices Act and unfair competition regarding debt collection activities; and that we owe, and breached, a fiduciary duty to our customers in connection with the RAL program.

The amounts claimed in the RAL Cases have been very substantial in some instances, with one settlement resulting in a pretax expense of \$43.5 million in fiscal year 2003 (the Texas RAL Settlement) and other settlements resulting in a combined pretax expense in fiscal year 2006 of \$70.2 million.

We have settled all but one of the RAL Cases. The sole remaining RAL Case is a putative class action entitled *Sandra J. Basile, et al. v. H&R Block, Inc., et al.*, April Term 1992 Civil Action No. 3246 in the Court of Common Pleas, First Judicial District Court of Pennsylvania, Philadelphia County, instituted on April 23, 1993. In *Basile*, the court decertified the class in December 2003, and the Pennsylvania appellate court subsequently reversed the trial court's decertification decision. In September 2006, the Pennsylvania Supreme Court reversed the appellate court's reversal of the trial court's decertification decision. In June 2007, the appellate court affirmed its earlier decision to reverse the trial court's decertification decision. In June 2009, the Pennsylvania Supreme Court again reversed the appellate court's reversal of the trial court's decertification decision and remanded the case to the appellate court for additional review. We believe we have meritorious defenses to this case and we intend to defend it vigorously. There can be no assurances, however, as to the outcome of this case or its impact on our financial statements.

Peace of Mind Litigation

We are defendants in lawsuits regarding our Peace of Mind program (collectively, the POM Cases), under which our applicable tax return preparation subsidiary assumes liability for additional tax assessments attributable to tax return preparation error. The POM Cases are described below.

Lorie J. Marshall, et al. v. H&R Block Tax Services, Inc., et al., Case No. 08-CV-591 in the U.S. District Court for the Southern District of Illinois, is a class action case originally filed in the Circuit Court of Madison County, Illinois on January 18, 2002, in which class certification was granted in August 2003. The plaintiffs allege that the sale of POM guarantees constitutes (1) statutory fraud by selling insurance without a license, (2) an unfair trade practice, by omission and by cramming (i.e., charging customers for the guarantee even though they did not request it or want it), and (3) a breach of fiduciary duty. A class was certified consisting of all persons residing in 13 states who from January 1, 1997 to final judgment (1) were charged a separate fee for POM by H&R Block; (2) were charged a

separate fee for POM by an H&R Block entity not licensed to sell insurance; or (3) had an unsolicited charge for POM posted to their bills by H&R Block. Persons who received the POM guarantee through an H&R Block

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Premium office were excluded from the plaintiff class. In August 2008, we removed the case from state court in Madison County, Illinois to the U.S. District Court for the Southern District of Illinois. In December 2008, the U.S. District Court remanded the case back to state court. On April 3, 2009, the United States Court of Appeals for the Seventh Circuit reversed the decision to remand the case back to state court, ruling that the case had been properly removed to federal court. The plaintiffs filed a petition for rehearing of this decision with the Seventh Circuit, which was denied in August 2009.

There is one other putative class action pending against us in Texas that involves the POM guarantee. This case is pending before the same judge that presided over the Texas RAL Settlement, involves the same plaintiffs attorneys that are involved in the *Marshall* litigation in Illinois, and contains allegations similar to those in the *Marshall* case. No class has been certified in this case.

We believe we have meritorious defenses to the claims in the POM Cases, and we intend to defend them vigorously. The amounts claimed in the POM Cases are substantial, however, and there can be no assurances as to the outcome of these pending actions individually or in the aggregate.

Express IRA Litigation

On March 15, 2006, the New York Attorney General filed a lawsuit in the Supreme Court of the State of New York, County of New York (Index No. 06/401110) entitled *The People of New York v. H&R Block, Inc. and H&R Block Financial Advisors, Inc. et al.* The complaint alleges fraudulent business practices, deceptive acts and practices, common law fraud and breach of fiduciary duty with respect to the Express IRA product and seeks equitable relief, disgorgement of profits, damages and restitution, civil penalties and punitive damages. In July 2007, the Supreme Court of the State of New York issued a ruling that dismissed all defendants other than H&R Block Financial Advisors, Inc. (HRBFA) and the claims of common law fraud. The intermediate appellate court reversed this ruling in January 2009. We believe we have meritorious defenses to the claims in this case and intend to defend this case vigorously, but there are no assurances as to its outcome.

On January 2, 2008, the Mississippi Attorney General filed a lawsuit in the Chancery Court of Hinds County, Mississippi First Judicial District (Case No. G 2008 6 S 2) entitled *Jim Hood, Attorney for the State of Mississippi v. H&R Block, Inc., et al.* The complaint alleges fraudulent business practices, deceptive acts and practices, common law fraud and breach of fiduciary duty with respect to the Express IRA product and seeks equitable relief, disgorgement of profits, damages and restitution, civil penalties and punitive damages. The defendants have filed a motion to dismiss. We believe we have meritorious defenses to the claims in this case, and we intend to defend this case vigorously, but there are no assurances as to its outcome.

In addition to the New York and Mississippi Attorney General actions, a number of civil actions were filed against HRBFA and us concerning the Express IRA product, the first of which was filed on March 15, 2006. Except for two cases pending in state court, all of the civil actions have been consolidated by the panel for Multi-District Litigation into a single action styled *In re H&R Block, Inc. Express IRA Marketing Litigation* (Case No. 06-1786-MD-RED) in the United States District Court for the Western District of Missouri. The amounts claimed in these cases are substantial. We believe we have meritorious defenses to the claims in these cases and intend to defend these cases vigorously, but there are no assurances as to their outcome.

Although we sold HRBFA effective November 1, 2008, we remain responsible for any liabilities relating to the Express IRA litigation through an indemnification agreement.

Securities Litigation

On April 6, 2007, a putative class action styled *In re H&R Block Securities Litigation* (Case No. 06-0236-CV-W-ODS) was filed against the Company and certain of its officers in the United States District Court for the Western District of Missouri. The complaint alleged, among other things, deceptive, material and misleading financial statements and failure to prepare financial statements in accordance with generally accepted accounting principles. The complaint sought unspecified damages and equitable relief. The court dismissed the complaint in February 2008, and the plaintiffs appealed the dismissal in March 2008. In addition, plaintiffs in a shareholder derivative action that was consolidated into the securities litigation filed a separate appeal in March 2008, contending

that the derivative action was improperly consolidated. The derivative action is *Iron Workers Local 16 Pension Fund v. H&R Block, et al.*, in the United States

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District Court for the Western District of Missouri, Case No. 06-cv-00466-ODS (instituted on June 8, 2006) and was brought against certain of our directors and officers purportedly on behalf of the Company. The derivative action alleged breach of fiduciary duty, abuse of control, gross mismanagement, waste, and unjust enrichment pertaining to (1) our restatement of financial results in fiscal year 2006 due to errors in determining our state effective income tax rate and (2) certain of our products and business activities. We believe we have meritorious defenses to the claims in these cases and intend to defend this litigation vigorously. We currently do not believe that we will incur a material loss with respect to this litigation.

RSM McGladrey Litigation

RSM McGladrey Business Services, Inc. and certain of its subsidiaries are parties to a class action filed on July 11, 2006 and entitled *Do Right s Plant Growers, et al. v. RSM EquiCo, Inc., et al.* Case No. 06 CC00137, in the California Superior Court, Orange County. The complaint contains allegations relating to business valuation services provided by RSM EquiCo, Inc., including allegations of fraud, negligent misrepresentation, breach of contract, breach of implied covenant of good faith and fair dealing, breach of fiduciary duty and unfair competition and seeks unspecified damages, restitution and equitable relief. On March 17, 2009, the court granted plaintiffs' motion for class certification on all claims. The class consists of all RSM EquiCo U.S. clients who signed platform agreements and for whom RSM EquiCo did not ultimately market their business for sale. RSM EquiCo filed a writ petition for interlocutory appeal of this certification ruling, which was denied. We intend to defend this case vigorously. The amount claimed in this action is substantial and could have a material adverse impact on our consolidated results of operations. There can be no assurance regarding the outcome of this matter.

RSM McGladrey, Inc. (RSM) has a relationship with certain public accounting firms (collectively, the Attest Firms) pursuant to which (1) some RSM employees are also partners or employees of the Attest Firms, (2) many clients of the Attest Firms are also RSM clients, and (3) our RSM McGladrey brand is closely linked to the Attest Firms. The Attest Firms are parties to claims and lawsuits (collectively, Attest Firm Claims) arising in the normal course of business. Judgments or settlements arising from Attest Firm Claims exceeding the Attest Firms' insurance coverage could have a direct adverse effect on Attest Firm operations and could impair RSM's ability to attract and retain clients and quality professionals. For example, accounting and auditing firms (including one of the Attest Firms) have become subject to claims based on losses their clients suffered from investments in investment funds managed by third-parties. Although RSM may not have a direct liability for significant Attest Firm Claims, such Attest Firm Claims could have a material adverse effect on RSM's operations and impair the value of our investment in RSM. There is no assurance regarding the outcome of the Attest Firm Claims.

Litigation and Claims Pertaining to Discontinued Mortgage Operations

Although mortgage loan origination activities were terminated and the loan servicing business was sold during fiscal year 2008, SCC remains subject to investigations, claims and lawsuits pertaining to its loan origination and servicing activities that occurred prior to such termination and sale. These investigations, claims and lawsuits include actions by state attorneys general, other state regulators, municipalities, individual plaintiffs, and cases in which plaintiffs seek to represent a class of others alleged to be similarly situated. Among other things, these investigations, claims and lawsuits allege discriminatory or unfair and deceptive loan origination and servicing practices, public nuisance, fraud, and violations of the Truth in Lending Act, Equal Credit Opportunity Act and the Fair Housing Act. In the current non-prime mortgage environment, the number of these investigations, claims and lawsuits has increased over historical experience and is likely to continue at increased levels. The amounts claimed in these investigations, claims and lawsuits are substantial in some instances, and the ultimate resulting liability is difficult to predict. In the event of unfavorable outcomes, the amounts SCC may be required to pay in the discharge of liabilities or settlements could be substantial and, because SCC's operating results are included in our consolidated financial statements, could have a material adverse impact on our consolidated results of operations.

On June 3, 2008, the Massachusetts Attorney General filed a lawsuit in the Superior Court of Suffolk County, Massachusetts (Case No. 08-2474-BLS) entitled *Commonwealth of Massachusetts v. H&R Block, Inc., et al.*, alleging unfair, deceptive and discriminatory origination and servicing of mortgage loans and seeking equitable relief,

disgorgement of profits, restitution and statutory penalties. In November

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2008, the court granted a preliminary injunction limiting the ability of the owner of SCC's former loan servicing business to initiate or advance foreclosure actions against certain loans originated by SCC or its subsidiaries without (1) advance notice to the Massachusetts Attorney General and (2) if the Attorney General objects to foreclosure, approval by the court. The preliminary injunction generally applies to loans meeting all of the following four characteristics: (1) adjustable rate mortgages with an introductory period of three years or less; (2) the borrower has a debt-to-income ratio generally exceeding 50 percent; (3) an introductory interest rate at least 2 percent lower than the fully indexed rate (unless the debt-to-income ratio is 55% or greater); and (4) loan-to-value ratio of 97 percent or certain prepayment penalties. We have appealed this preliminary injunction. We believe the claims in this case are without merit, and we intend to defend this case vigorously, but there are no assurances as to its outcome. SCC also remains subject to potential claims for indemnification and loan repurchases pertaining to loans previously sold. In the current non-prime mortgage environment, it is likely that the frequency of repurchase and indemnification claims may increase over historical experience and give rise to additional litigation. In some instances, H&R Block, Inc. was required to guarantee SCC's obligations. The amounts involved in these potential claims may be substantial, and the ultimate resulting liability is difficult to predict. Because SCC's operating results are included in our consolidated financial statements, the amounts SCC may be required to pay in the discharge or settlement of these claims in the event of unfavorable outcomes could have a material adverse impact on our consolidated results of operations.

Other Claims and Litigation

We are from time to time party to investigations, claims and lawsuits not discussed herein arising out of our business operations. These investigations, claims and lawsuits include actions by state attorneys general, other state regulators, individual plaintiffs, and cases in which plaintiffs seek to represent a class of others similarly situated. Some of these investigations, claims and lawsuits pertain to RALs, the electronic filing of customers' income tax returns, the POM guarantee program, wage and hour claims and investment products. We believe we have meritorious defenses to each of these investigations, claims and lawsuits, and we are defending or intend to defend them vigorously. The amounts claimed in these matters are substantial in some instances, however the ultimate liability with respect to such matters is difficult to predict. In the event of an unfavorable outcome, the amounts we may be required to pay in the discharge of liabilities or settlements could be material.

In addition to the aforementioned types of matters, we are party to claims and lawsuits that we consider to be ordinary, routine litigation incidental to our business, including claims and lawsuits (collectively, "Other Claims") concerning the preparation of customers' income tax returns, the fees charged customers for various products and services, relationships with franchisees, intellectual property disputes, employment matters and contract disputes. While we cannot provide assurance that we will ultimately prevail in each instance, we believe the amount, if any, we are required to pay in the discharge of liabilities or settlements in these Other Claims will not have a material adverse effect on our consolidated operating results, financial position or cash flows.

Table of Contents**12. Segment Information**

Results of our continuing operations by reportable operating segment are as follows:

	(in 000s)	
Three Months Ended July 31,	2009	2008
Revenues:		
Tax Services	\$ 87,963	\$ 81,700
Business Services	177,618	174,651
Corporate	9,924	15,558
	\$ 275,505	\$ 271,909
Pretax income (loss):		
Tax Services	\$ (171,974)	\$ (163,657)
Business Services	1,321	(295)
Corporate	(40,220)	(49,018)
Loss from continuing operations before tax benefit	\$ (210,873)	\$ (212,970)

Effective May 1, 2009, we realigned certain segments of our business to reflect a new management reporting structure. The operations of HRB Bank, which was previously reported as the Consumer Financial Services segment, have now been reclassified, with activities that support our retail tax network included in the Tax Services segment, and the net interest margin and gains and losses relating to our portfolio of mortgage loans held for investment and related assets included in corporate. Presentation of prior period results reflects the new segment reporting structure. These segment changes also resulted in the shifting of assets between segments. Identifiable assets by reportable segment at July 31, 2009 were as follows:

(in 000s)

Tax Services	\$ 1,794,754
Business Services	829,772
Corporate	1,921,236
	\$ 4,545,762

13. Accounting Pronouncements

In June 2009, Statement of Financial Accounting Standards No. 167, Amendments to FASB Interpretation No. 46(R) (SFAS 167) was issued. SFAS 167 changes how a reporting entity determines when an entity that is insufficiently capitalized or is not controlled through voting, or similar rights, should be consolidated. The determination of whether a reporting entity is required to consolidate another entity is based on, among other things, the other entity's purpose

and design and the reporting entity's ability to direct the activities of the other entity that most significantly impact the other entity's economic performance. SFAS 167 will require a reporting entity to provide additional disclosures about its involvement with variable interest entities and any significant changes in risk exposure due to that involvement. SFAS 167 will be effective for our fiscal year 2011. We are currently evaluating the effect of this statement on our consolidated financial statements.

In June 2009, Statement of Financial Accounting Standards No. 166, Accounting for Transfers of Financial Assets (SFAS 166), was issued. SFAS 166 is a revision to FASB Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, and will require more disclosure about transfers of financial assets, including securitization transactions, and where entities have continuing exposure to the risks related to transferred financial assets. It eliminates the concept of a qualifying special purpose entity, changes the requirements for derecognizing financial assets. SFAS 166 will be effective at the start of our fiscal year 2011. We are currently evaluating the effect of this statement on its consolidated financial statements.

In May 2009, Statement of Financial Accounting Standards No. 165, Subsequent Events (SFAS 165) was issued. SFAS 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. SFAS 165 is effective for fiscal years and interim periods ending after June 15, 2009 and is

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applied prospectively. We adopted the new disclosure requirements in the condensed consolidated financial statements effective July 31, 2009. See note 1 for the related disclosure.

In December 2007, Statement of Financial Accounting Standards No. 141(R), Business Combinations, (SFAS 141R), and Statement of Financial Accounting Standards No. 160, Non-Controlling Interests in Consolidated Financial Statements An Amendment of ARB No. 51 (SFAS 160) were issued. These standards require an acquiring entity to recognize all the assets acquired and liabilities assumed in a transaction, including non-controlling interests, at the acquisition-date fair value with limited exceptions. SFAS 141R will require acquisition-related expenses to be expensed and will generally require contingent consideration to be recorded as a liability at the time of acquisition. Under SFAS 141R, subsequent changes to deferred tax valuation allowances relating to acquired businesses and acquired liabilities for uncertain tax positions will no longer be applied to goodwill but will instead be typically recognized as an adjustment to income tax expense. We adopted the provisions of these standards as of May 1, 2009. The adoption of SFAS 141R and SFAS 160 did not have a material impact on our consolidated financial statements. In June 2008, FSP 03-6-1 was issued. FSP 03-6-1 addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, should be included in the process of allocating earnings for purposes of computing earnings per share. We adopted the provisions of FSP 03-6-1 as of May 1, 2009. The adoption and retrospective application of the provisions of FSP 03-6-1 did not change the current year or prior period earnings per share amounts for the fiscal quarter. The adoption of this standard will reduce earnings per share as previously reported for fiscal year 2009 by \$0.01. See additional discussion in note 3.

14. Condensed Consolidating Financial Statements

Block Financial LLC (BFC) is an indirect, wholly-owned consolidated subsidiary of the Company. BFC is the Issuer and the Company is the Guarantor of the Senior Notes issued on January 11, 2008 and October 26, 2004, our unsecured committed lines of credit (CLOCs) and other indebtedness issued from time to time. These condensed consolidating financial statements have been prepared using the equity method of accounting. Earnings of subsidiaries are, therefore, reflected in the Company's investment in subsidiaries account. The elimination entries eliminate investments in subsidiaries, related stockholders' equity and other intercompany balances and transactions.

Condensed Consolidating Income Statements						(in 000s)
Three Months Ended July 31, 2009	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Elims	Consolidated H&R Block	
Total revenues	\$ -	\$ 23,196	\$ 252,365	\$ (56)	\$ 275,505	
Cost of revenues	-	45,560	340,890	-	386,450	
Selling, general and administrative	-	2,498	100,775	(56)	103,217	
Total expenses	-	48,058	441,665	(56)	489,667	
Operating income (loss)	-	(24,862)	(189,300)	-	(214,162)	
Other income (expense), net	(210,873)	(1,233)	4,522	210,873	3,289	
Income (loss) from continuing operations before taxes (benefit)	(210,873)	(26,095)	(184,778)	210,873	(210,873)	

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Income taxes (benefit)	(80,256)	(10,692)	(69,564)	80,256	(80,256)
Net income (loss) from continuing operations	(130,617)	(15,403)	(115,214)	130,617	(130,617)
Net loss from discontinued operations	(3,017)	(3,017)	-	3,017	(3,017)
Net income (loss)	\$ (133,634)	\$ (18,420)	\$ (115,214)	\$ 133,634	\$ (133,634)

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Three Months Ended July 31, 2008	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Elims	Consolidated H&R Block
Total revenues	\$ -	\$ 20,775	\$ 252,572	\$ (1,438)	\$ 271,909
Cost of revenues	-	39,362	320,772	4	360,138
Selling, general and administrative	-	19,396	104,083	(93)	123,386
Total expenses	-	58,758	424,855	(89)	483,524
Operating loss	-	(37,983)	(172,283)	(1,349)	(211,615)
Other income, net	(212,970)	(4,350)	2,995	212,970	(1,355)
Loss from continuing operations before tax benefit	(212,970)	(42,333)	(169,288)	211,621	(212,970)
Income tax benefit	(84,547)	(16,438)	(67,535)	83,973	(84,547)
Net loss from continuing operations	(128,423)	(25,895)	(101,753)	127,648	(128,423)
Net loss from discontinued operations	(4,296)	(5,071)	-	5,071	(4,296)
Net loss	\$ (132,719)	\$ (30,966)	\$ (101,753)	\$ 132,719	\$ (132,719)

Condensed Consolidating Balance Sheets

(in 000s)

July 31, 2009	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Elims	Consolidated H&R Block
Cash & cash equivalents	\$ -	\$ 122,895	\$ 883,968	\$ (560)	\$ 1,006,303
Cash & cash equivalents restricted	-	355	46,284	-	46,639
Receivables, net	1,110	109,803	268,264	-	379,177
Mortgage loans held for investment	-	707,712	-	-	707,712
Intangible assets and goodwill, net	-	-	1,231,640	-	1,231,640
Investments in subsidiaries	3,055,015	-	185	(3,055,015)	185
Other assets	-	317,877	856,229	-	1,174,106

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Total assets	\$	3,056,125	\$	1,258,642	\$	3,286,570	\$	(3,055,575)	\$	4,545,762
Customer deposits	\$	-	\$	712,568	\$	-	\$	(560)	\$	712,008
Long-term debt		-		998,335		34,060		-		1,032,395
FHLB borrowings		-		100,000		-		-		100,000
Other liabilities		50,500		124,914		1,335,231		-		1,510,645
Net intercompany advances		1,814,911		(811,975)		(1,002,936)		-		-
Stockholders equity		1,190,714		134,800		2,920,215		(3,055,015)		1,190,714
Total liabilities and stockholders equity	\$	3,056,125	\$	1,258,642	\$	3,286,570	\$	(3,055,575)	\$	4,545,762

April 30, 2009		H&R Block, Inc. (Guarantor)		BFC (Issuer)		Other Subsidiaries		Elims		Consolidated H&R Block
Cash & cash equivalents	\$	-	\$	241,350	\$	1,419,535	\$	(6,222)	\$	1,654,663
Cash & cash equivalents restricted		-		4,303		47,353		-		51,656
Receivables, net		38		114,442		398,334		-		512,814
Mortgage loans held for investment		-		744,899		-		-		744,899
Intangible assets and goodwill, net		-		-		1,236,228		-		1,236,228
Investments in subsidiaries		3,289,435		-		194		(3,289,435)		194
Other assets		-		308,481		850,787		-		1,159,268
Total assets	\$	3,289,473	\$	1,413,475	\$	3,952,431	\$	(3,295,657)	\$	5,359,722
Customer deposits	\$	-	\$	861,110	\$	-	\$	(6,222)	\$	854,888
Long-term debt		-		998,245		33,877		-		1,032,122
FHLB borrowings		-		100,000		-		-		100,000
Other liabilities		2		130,362		1,836,477		12		1,966,853
Net intercompany advances		1,883,612		(827,453)		(1,056,147)		(12)		-
Stockholders equity		1,405,859		151,211		3,138,224		(3,289,435)		1,405,859
Total liabilities and stockholders equity	\$	3,289,473	\$	1,413,475	\$	3,952,431	\$	(3,295,657)	\$	5,359,722

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Condensed Consolidating Statements of Cash Flows						(in 000s)
Three Months Ended July 31, 2009	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Elims	Consolidated H&R Block	
Net cash used in operating activities:	\$ 868	\$ (4,881)	\$ (450,564)	\$ -	\$ (454,577)	
Cash flows from investing:						
Mortgage loans originated for investment, net	-	19,264	-	-	19,264	
Purchase property & equipment	-	-	(8,760)	-	(8,760)	
Net intercompany advances	45,536	-	-	(45,536)	-	
Other, net	-	6,803	(1,947)	-	4,856	
Net cash provided by (used in) investing activities	45,536	26,067	(10,707)	(45,536)	15,360	
Cash flows from financing:						
Customer banking deposits	-	(148,861)	-	5,662	(143,199)	
Dividends paid	(50,287)	-	-	-	(50,287)	
Acquisition of treasury shares	(3,483)	-	-	-	(3,483)	
Proceeds from issuance of common stock, net	6,651	-	-	-	6,651	
Net intercompany advances	-	18,058	(63,594)	45,536	-	
Other, net	715	(8,838)	(17,765)	-	(25,888)	
Net cash provided by financing activities	(46,404)	(139,641)	(81,359)	51,198	(216,206)	
Effects of exchange rates on cash	-	-	7,063	-	7,063	
Net increase (decrease) in cash	-	(118,455)	(535,567)	5,662	(648,360)	
Cash beginning of period	-	241,350	1,419,535	(6,222)	1,654,663	
Cash end of period	\$ -	\$ 122,895	\$ 883,968	\$ (560)	\$ 1,006,303	

Three Months Ended July 31, 2008	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Elims	Consolidated H&R Block
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Net cash provided by (used in) operating activities:	\$	(11,615)	\$	58,425	\$	(411,733)	\$	-	\$	(364,923)
Cash flows from investing:										
Mortgage loans originated for investment, net		-		31,619		-		-		31,619
Purchase property & equipment		-		(186)		(14,462)		-		(14,648)
Net intercompany advances		29,630		-		-		(29,630)		-
Other, net		-		1,365		(2,266)		-		(901)
Net cash provided by (used in) investing activities		29,630		32,798		(16,728)		(29,630)		16,070
Cash flows from financing:										
Repayments of FHLB borrowings		-		(40,000)		-		-		(40,000)
Proceeds from FHLB borrowings		-		15,000		-		-		15,000
Customer banking deposits		-		(8,964)		-		169		(8,795)
Dividends paid		(46,790)		-		-		-		(46,790)
Acquisition of treasury shares		(4,116)		-		-		-		(4,116)
Proceeds from issuance of common stock, net		28,507		-		-		-		28,507
Net intercompany advances		-		(50,203)		20,573		29,630		-
Other, net		4,384		(3,828)		(14,943)		-		(14,387)
Net cash provided by (used in) financing activities		(18,015)		(87,995)		5,630		29,799		(70,581)
Net increase (decrease) in cash		-		3,228		(422,831)		169		(419,434)
Cash beginning of period		-		34,611		630,933		(647)		664,897
Cash end of period	\$	-	\$	37,839	\$	208,102	\$	(478)	\$	245,463

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

H&R Block provides tax services, banking services and business and consulting services. Our Tax Services segment provides income tax return preparation services, electronic filing services and other services and products related to income tax return preparation to the general public primarily in the United States, Canada and Australia. This segment also offers The H&R Block Prepaid Emerald MasterCard® and Emerald Advance lines of credit through H&R Block Bank (HRB Bank), which was previously reported in our Consumer Financial Services segment. Our Business Services segment consists of RSM McGladrey, Inc. (RSM), a national accounting, tax and business consulting firm primarily serving mid-sized businesses. Corporate operating losses include interest income from U.S. passive investments, interest expense on borrowings, net interest margin and gains or losses relating to mortgage loans held for investment, real estate owned, residual interests in securitizations and other corporate expenses, principally related to finance, legal and other support departments. All periods presented reflect our new segment reporting structure.

Recent Events. RSM and McGladrey & Pullen LLP (M&P), an independent registered public accounting firm, collaborate to provide accounting, tax and consulting services to clients under an alternative practice structure. RSM and M&P also share in certain common overhead costs through an administrative services agreement. These services are provided by, and coordinated through, RSM, for which RSM receives a management fee. On July 21, 2009, M&P provided 210 days notice of its intent to terminate the administrative services agreement. The effect of the notice will be to terminate the alternative practice structure on February 16, 2010, unless revoked or modified prior to that time. RSM and M&P are engaged in arbitration to determine several of their rights and responsibilities under their contractual obligations to each other. An arbitration hearing is scheduled for November 2009. RSM and M&P are also engaged in negotiations to determine if there are mutually agreeable changes to the current arrangements that would allow our collaboration to continue. There are no assurances as to the outcome.

TAX SERVICES

This segment primarily consists of our income tax preparation businesses – retail, online and software. Additionally, this segment includes the product offerings and activities of HRB Bank that primarily support the tax network, our participations in refund anticipation loans, and our commercial tax businesses, which provide tax preparation software to CPAs and other tax preparers.

Tax Services – Operating Results	(in 000s)	
Three Months Ended July 31,	2009	2008
Tax preparation fees	\$ 33,625	\$ 29,432
Fees from Peace of Mind guarantees	27,913	27,241
Fees from Emerald Card activities	11,691	10,893
Royalties	3,607	3,684
Other	11,127	10,450
Total revenues	87,963	81,700
Compensation and benefits:		
Field wages	39,379	39,819
Corporate wages	29,880	28,810
Benefits and other compensation	21,316	13,903

	90,575	82,532
Occupancy and equipment	87,920	86,056
Depreciation and amortization	22,316	17,110
Marketing and advertising	6,839	5,544
Other	52,287	54,115
Total expenses	259,937	245,357
Pretax loss	\$ (171,974)	\$ (163,657)

Table of Contents**Three months ended July 31, 2009 compared to July 31, 2008**

Tax Services revenues increased \$6.3 million, or 7.7%, for the three months ended July 31, 2009 compared to the prior year. Tax preparation fees increased \$4.2 million, or 14.2%, primarily due to favorable results in our Australian tax operations.

Total expenses increased \$14.6 million, or 5.9%, for the three months ended July 31, 2009. Approximately \$9 million of this increase was the result of the November 2008 acquisition of our last major independent franchise operator, which includes approximately \$2 million of amortization due to higher intangible asset balances and additional pre-season expenses. Benefits and other compensation increased \$7.4 million, or 53.3%, primarily as a result of severance costs and related payroll taxes in the current year.

The pretax loss for the three months ended July 31, 2009 and 2008 was \$172.0 million and \$163.7 million, respectively.

BUSINESS SERVICES

This segment offers accounting, tax and consulting services to middle-market companies.

Business Services Operating Results

(in 000s)

Three Months Ended July 31,	2009	2008
Tax services	\$ 77,584	\$ 76,301
Business consulting	61,921	53,508
Accounting services	11,529	12,960
Capital markets	1,517	5,818
Reimbursed expenses	4,149	4,205
Other	20,918	21,859
Total revenues	177,618	174,651
Compensation and benefits	134,380	122,908
Occupancy	19,449	19,834
Amortization of intangible assets	2,965	3,419
Other	19,503	28,785
Total expenses	176,297	174,946
Pretax income (loss)	\$ 1,321	\$ (295)

Three months ended July 31, 2009 compared to July 31, 2008

Business Services revenues for the three months ended July 31, 2009 increased \$3.0 million, or 1.7% from the prior year. Revenues from core tax, consulting and accounting services increased \$8.3 million, or 5.8%, over the prior year primarily due to revenues from consulting engagements related to financial institutions.

Capital markets revenues decreased \$4.3 million, or 73.9%, primarily due to a 72.7% decline in the number of transactions closed in the current year due to the continued weak economic conditions. Given the continued limited availability of financing for acquisitions in the middle-market, our capital markets revenues may continue to fall

below our expectations, which could lead us to consider impairment of the \$29.3 million carrying value of goodwill related to our capital markets business.

Total expenses increased \$1.4 million, or 0.8%, from the prior year. Compensation and benefits increased \$11.5 million, or 9.3%, primarily due to increases in managing director compensation and outside contractor costs related to consulting engagements. Other expenses decreased \$9.3 million primarily as a result of our cost reduction program.

Pretax income for the three months ended July 31, 2009 was \$1.3 million compared to a loss of \$0.3 million in the prior year.

CORPORATE, ELIMINATIONS AND INCOME TAXES ON CONTINUING OPERATIONS

Corporate operating losses include interest income from U.S. passive investments, interest expense on borrowings, net interest margin and gains or losses relating to mortgage loans held for investment, real estate

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owned, residual interests in securitizations and other corporate expenses, principally related to finance, legal and other support departments.

Corporate Operating Results	(in 000s)	
Three Months Ended July 31,	2009	2008
Interest income:		
Mortgage loans held for investment, net	\$ 7,896	\$ 13,265
Other investments	824	1,094
	8,720	14,359
Other	1,204	1,199
Total revenues	9,924	15,558
Interest expense:		
Borrowings HRB Bank	2,011	5,125
Borrowings Corporate	17,647	17,617
	19,658	22,742
Provision for loan losses	13,600	14,991
Compensation and benefits	13,301	12,748
Other	3,585	14,095
Total expenses	50,144	64,576
Pretax loss	\$ (40,220)	\$ (49,018)

Three months ended July 31, 2009 compared to July 31, 2008

Interest income earned on mortgage loans held for investment decreased \$5.4 million from the prior year, primarily as a result of declining rates and non-performing loans. Other expenses declined \$10.5 million due to impairments of residual interests totaling \$5.0 million recorded in the prior year, coupled with a \$4.2 million decline in impairments of real estate owned.

Income Taxes

Our effective tax rate for continuing operations was 38.1% and 39.7% for the three months ended July 31, 2009 and 2008, respectively. Our effective tax rate declined from the prior year due to non-deductible losses from investments in company-owned life insurance assets recorded in the first fiscal quarter of last year. We expect our effective tax rate for full fiscal year 2010 to be approximately 40%.

Mortgage Loans Held for Investment

Mortgage loans held for investment include loans originated by our affiliate, Sand Canyon Corporation (SCC), and purchased by HRB Bank totaling \$514.3 million, or approximately 65% of the total loan portfolio at July 31, 2009.

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We have experienced higher rates of delinquency and have greater exposure to loss with respect to this segment of our loan portfolio. Our remaining loan portfolio totaled \$278.9 million and is characteristic of a prime loan portfolio, and we believe subject to a lower loss exposure.

Detail of our mortgage loans held for investment and the related allowance at July 31, 2009 and April 30, 2009 is as follows:

			(dollars in 000s)
	Outstanding Principal Balance	Loan Loss Allowance	%30+Days Past Due
As of July 31, 2009:			
Purchased from SCC	\$ 514,267	\$ 85,644	32.55%
All other	278,859	6,047	6.94%
	\$ 793,126	\$ 91,691	23.67%
As of April 30, 2009:			
Purchased from SCC	\$ 531,233	\$ 78,067	28.74%
All other	290,604	6,006	4.44%
	\$ 821,837	\$ 84,073	20.23%

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We recorded a provision for loan losses of \$13.6 million during the current quarter, compared to \$15.0 million in the prior year. Our allowance for loan losses as a percent of mortgage loans was 11.56%, or \$91.7 million, at July 31, 2009, compared to 10.23%, or \$84.1 million, at April 30, 2009. This allowance represents our best estimate of credit losses inherent in the loan portfolio as of the balance sheet dates.

Our non-performing assets consist of the following:

	(in 000s)	
As of	July 31, 2009	April 30, 2009
Impaired loans:		
60 - 89 days	\$ 14,519	\$ 21,415
90+ days, non-accrual	148,603	121,685
TDR loans, accrual	90,275	60,044
TDR loans, non-accrual	71,295	100,697
	324,692	303,841
Real estate owned ⁽¹⁾	42,741	44,533
Total non-performing assets	\$ 367,433	\$ 348,374

⁽¹⁾ Includes loans accounted for as in-substance foreclosures of \$23.5 million and \$27.4 million at July 31, 2009 and April 30, 2009, respectively.

FINANCIAL CONDITION

These comments should be read in conjunction with the condensed consolidated balance sheets and condensed consolidated statements of cash flows found on pages 1 and 3, respectively.

CAPITAL RESOURCES AND LIQUIDITY Our sources of capital include cash from operations, issuances of common stock and debt. We use capital primarily to fund working capital, pay dividends, repurchase treasury shares and acquire businesses. Our operations are highly seasonal and therefore generally require the use of cash to fund operating losses during the period May through mid-January.

Given the likely availability of a number of liquidity options discussed herein, including borrowing capacity under our unsecured committed lines of credit (CLOCs), we believe, that in the absence of any unexpected developments, our existing sources of capital at July 31, 2009 are sufficient to meet our operating needs.

CASH FROM OPERATING ACTIVITIES Cash used by operations totaled \$454.6 million for the first three months of fiscal year 2010, compared with \$364.9 million for the same period last year. The increase was primarily due to increases in income tax payments made during the quarter.

CASH FROM INVESTING ACTIVITIES Cash provided by investing activities totaled \$15.4 million for the first three months of fiscal year 2010, compared to \$16.1 million for the same period last year.

Mortgage Loans Held for Investment. We received net payments of \$19.3 million and \$31.6 million on our mortgage loans held for investment for the first three months of fiscal years 2010 and 2009, respectively. Cash payments declined due primarily due to non-performing loans and continued run-off of our portfolio.

Purchases of Property and Equipment. Total cash paid for property and equipment was \$8.8 million and \$14.6 million for the first three months of fiscal years 2010 and 2009, respectively.

CASH FROM FINANCING ACTIVITIES Cash used in financing activities totaled \$216.2 million for the first three months of fiscal year 2010, compared to \$70.6 million for the same period last year.

Customer Banking Deposits. Customer banking deposits used cash of \$143.2 million for the three months ended July 31, 2009 compared to \$8.8 million in the prior year, due to declines in prepaid debit card deposits.

Dividends. We have consistently paid quarterly dividends. Dividends paid totaled \$50.3 million and \$46.8 million for the three months ended July 31, 2009 and 2008, respectively.

Issuances of Common Stock. Proceeds from the issuance of common stock resulting from stock compensation plans totaled \$6.7 million and \$28.5 million for the three months ended July 31, 2009 and 2008, respectively. This decline is due to a reduction in stock option exercises and the related tax benefits.

BORROWINGS

At July 31, 2009, we maintained \$2.0 billion in revolving credit facilities to support commercial paper issuance and for general corporate purposes. These CLOCs, and outstanding borrowings thereunder, have a maturity date of August 2010 and an annual facility fee in a range of six to fifteen basis points per annum, based on our

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credit ratings. We had no balance outstanding as of July 31, 2009. The CLOCs, among other things, require we maintain at least \$650.0 million of net worth on the last day of any fiscal quarter. We had net worth of \$1.2 billion at July 31, 2009.

Aurora Bank, FSB (Aurora), formerly known as Lehman Brothers Bank, FSB, is a participating lender in our \$2.0 billion CLOCs, with a \$50.0 million credit commitment. In September 2008, Aurora's parent company declared bankruptcy. Since then, Aurora has not honored any funding requests under these facilities, thereby effectively reducing our available liquidity under our CLOCs to \$1.95 billion. We do not expect this change to have a material impact on our liquidity.

There have been no material changes in our borrowings or debt ratings from those reported at April 30, 2009 in our Annual Report on Form 10-K.

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

There have been no material changes in our contractual obligations and commercial commitments from those reported at April 30, 2009 in our Annual Report on Form 10-K.

REGULATORY ENVIRONMENT

There have been no material changes in our regulatory environment from those reported at April 30, 2009 in our Annual Report on Form 10-K.

FORWARD-LOOKING INFORMATION

This report and other documents filed with the Securities and Exchange Commission (SEC) may contain forward-looking statements. In addition, our senior management may make forward-looking statements orally to analysts, investors, the media and others. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. They often include words such as expects, anticipates, intends, plans, believes, seeks, estimates, will, would, should, could or may. Forward-looking statements provide management's current expectations or predictions of future conditions, events or results. They may include projections of revenues, income, earnings per share, capital expenditures, dividends, liquidity, capital structure or other financial items, descriptions of management's plans or objectives for future operations, products or services, or descriptions of assumptions underlying any of the above. They are not guarantees of future performance. By their nature, forward-looking statements are subject to risks and uncertainties. These statements speak only as of the date made and management does not undertake to update them to reflect changes or events occurring after that date except as required by federal securities laws.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in our market risks from those reported at April 30, 2009 in our Annual Report on Form 10-K.

ITEM 4. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

As of the end of the period covered by this Form 10-Q, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures. 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, we have concluded that our disclosure controls and procedures were effective as of the end of the period covered by this Quarterly Report on Form 10-Q.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no changes that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The information below should be read in conjunction with the information included in note 11 to our condensed consolidated financial statements.

RAL Litigation

We have been named as a defendant in numerous lawsuits throughout the country regarding our refund anticipation loan programs (collectively, "RAL Cases"). The RAL Cases have involved a variety of legal theories asserted by plaintiffs. These theories include allegations that, among other things: disclosures in the RAL applications were inadequate, misleading and untimely; the RAL interest rates were usurious and unconscionable; we did not disclose that we would receive part of the finance charges paid by the customer for such loans; untrue, misleading or deceptive statements in marketing RALs; breach of state laws on credit service organizations; breach of contract, unjust enrichment, unfair and deceptive acts or practices; violations of the federal Racketeer Influenced and Corrupt Organizations Act; violations of the federal Fair Debt Collection Practices Act and unfair competition regarding debt collection activities; and that we owe, and breached, a fiduciary duty to our customers in connection with the RAL program.

The amounts claimed in the RAL Cases have been very substantial in some instances, with one settlement resulting in a pretax expense of \$43.5 million in fiscal year 2003 (the "Texas RAL Settlement") and other settlements resulting in a combined pretax expense in fiscal year 2006 of \$70.2 million.

We have settled all but one of the RAL Cases. The sole remaining RAL Case is a putative class action entitled *Sandra J. Basile, et al. v. H&R Block, Inc., et al.*, April Term 1992 Civil Action No. 3246 in the Court of Common Pleas, First Judicial District Court of Pennsylvania, Philadelphia County, instituted on April 23, 1993. In *Basile*, the court decertified the class in December 2003, and the Pennsylvania appellate court subsequently reversed the trial court's decertification decision. In September 2006, the Pennsylvania Supreme Court reversed the appellate court's reversal of the trial court's decertification decision. In June 2007, the appellate court affirmed its earlier decision to reverse the trial court's decertification decision. In June 2009, the Pennsylvania Supreme Court again reversed the appellate court's reversal of the trial court's decertification decision and remanded the case to the appellate court for additional review. We believe we have meritorious defenses to this case and we intend to defend it vigorously. There can be no assurances, however, as to the outcome of this case or its impact on our financial statements.

Peace of Mind Litigation

We are defendants in lawsuits regarding our Peace of Mind program (collectively, the "POM Cases"), under which our applicable tax return preparation subsidiary assumes liability for additional tax assessments attributable to tax return preparation error. The POM Cases are described below.

Lorie J. Marshall, et al. v. H&R Block Tax Services, Inc., et al., Case No. 08-CV-591 in the U.S. District Court for the Southern District of Illinois, is a class action case originally filed in the Circuit Court of Madison County, Illinois on January 18, 2002, in which class certification was granted in August 2003. The plaintiffs allege that the sale of POM guarantees constitutes (1) statutory fraud by selling insurance without a license, (2) an unfair trade practice, by omission and by cramming (i.e., charging customers for the guarantee even though they did not request it or want it), and (3) a breach of fiduciary duty. A class was certified consisting of all persons residing in 13 states who from January 1, 1997 to final judgment (1) were charged a separate fee for POM by H&R Block; (2) were charged a separate fee for POM by an H&R Block entity not licensed to sell insurance; or (3) had an unsolicited charge for POM posted to their bills by H&R Block. Persons who received the POM guarantee through an H&R Block Premium office were excluded from the plaintiff class. In August 2008, we removed the case from state court in Madison County, Illinois to the U.S. District Court for the Southern District of Illinois. In December 2008, the U.S. District Court remanded the case back to state court. On April 3, 2009, the United States Court of Appeals for the Seventh Circuit reversed the decision to remand the case back to state court, ruling that the case had been properly removed to federal

court. The plaintiffs filed a petition for rehearing of this decision with the Seventh Circuit, which was denied in August 2009.

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There is one other putative class action pending against us in Texas that involves the POM guarantee. This case is pending before the same judge that presided over the Texas RAL Settlement, involves the same plaintiffs attorneys that are involved in the *Marshall* litigation in Illinois, and contains allegations similar to those in the *Marshall* case. No class has been certified in this case.

We believe we have meritorious defenses to the claims in the POM Cases, and we intend to defend them vigorously. The amounts claimed in the POM Cases are substantial, however, and there can be no assurances as to the outcome of these pending actions individually or in the aggregate.

Express IRA Litigation

On March 15, 2006, the New York Attorney General filed a lawsuit in the Supreme Court of the State of New York, County of New York (Index No. 06/401110) entitled *The People of New York v. H&R Block, Inc. and H&R Block Financial Advisors, Inc. et al.* The complaint alleges fraudulent business practices, deceptive acts and practices, common law fraud and breach of fiduciary duty with respect to the Express IRA product and seeks equitable relief, disgorgement of profits, damages and restitution, civil penalties and punitive damages. In July 2007, the Supreme Court of the State of New York issued a ruling that dismissed all defendants other than H&R Block Financial Advisors, Inc. (HRBFA) and the claims of common law fraud. The intermediate appellate court reversed this ruling in January 2009. We believe we have meritorious defenses to the claims in this case and intend to defend this case vigorously, but there are no assurances as to its outcome.

On January 2, 2008, the Mississippi Attorney General filed a lawsuit in the Chancery Court of Hinds County, Mississippi First Judicial District (Case No. G 2008 6 S 2) entitled *Jim Hood, Attorney for the State of Mississippi v. H&R Block, Inc., et al.* The complaint alleges fraudulent business practices, deceptive acts and practices, common law fraud and breach of fiduciary duty with respect to the Express IRA product and seeks equitable relief, disgorgement of profits, damages and restitution, civil penalties and punitive damages. The defendants have filed a motion to dismiss. We believe we have meritorious defenses to the claims in this case, and we intend to defend this case vigorously, but there are no assurances as to its outcome.

In addition to the New York and Mississippi Attorney General actions, a number of civil actions were filed against HRBFA and us concerning the Express IRA product, the first of which was filed on March 15, 2006. Except for two cases pending in state court, all of the civil actions have been consolidated by the panel for Multi-District Litigation into a single action styled *In re H&R Block, Inc. Express IRA Marketing Litigation* (Case No. 06-1786-MD-RED) in the United States District Court for the Western District of Missouri. The amounts claimed in these cases are substantial. We believe we have meritorious defenses to the claims in these cases and intend to defend these cases vigorously, but there are no assurances as to their outcome.

Although we sold HRBFA effective November 1, 2008, we remain responsible for any liabilities relating to the Express IRA litigation through an indemnification agreement.

Securities Litigation

On April 6, 2007, a putative class action styled *In re H&R Block Securities Litigation* (Case No. 06-0236-CV-W-ODS) was filed against the Company and certain of its officers in the United States District Court for the Western District of Missouri. The complaint alleged, among other things, deceptive, material and misleading financial statements and failure to prepare financial statements in accordance with generally accepted accounting principles. The complaint sought unspecified damages and equitable relief. The court dismissed the complaint in February 2008, and the plaintiffs appealed the dismissal in March 2008. In addition, plaintiffs in a shareholder derivative action that was consolidated into the securities litigation filed a separate appeal in March 2008, contending that the derivative action was improperly consolidated. The derivative action is *Iron Workers Local 16 Pension Fund v. H&R Block, et al.*, in the United States District Court for the Western District of Missouri, Case No. 06-cv-00466-ODS (instituted on June 8, 2006) and was brought against certain of our directors and officers purportedly on behalf of the Company. The derivative action alleged breach of fiduciary duty, abuse of control, gross mismanagement, waste, and unjust enrichment pertaining to (1) our restatement of financial results in fiscal year 2006 due to errors in determining our state effective income tax rate and (2) certain of our products and business activities.

We believe we have meritorious defenses to the claims in these cases and intend to defend this litigation vigorously. We currently do not believe that we will incur a material loss with respect to this litigation.

Table of Contents**RSM McGladrey Litigation**

RSM McGladrey Business Services, Inc. and certain of its subsidiaries are parties to a class action filed on July 11, 2006 and entitled *Do Right s Plant Growers, et al. v. RSM EquiCo, Inc., et al.* Case No. 06 CC00137, in the California Superior Court, Orange County. The complaint contains allegations relating to business valuation services provided by RSM EquiCo, Inc., including allegations of fraud, negligent misrepresentation, breach of contract, breach of implied covenant of good faith and fair dealing, breach of fiduciary duty and unfair competition and seeks unspecified damages, restitution and equitable relief. On March 17, 2009, the court granted plaintiffs motion for class certification on all claims. The class consists of all RSM EquiCo U.S. clients who signed platform agreements and for whom RSM EquiCo did not ultimately market their business for sale. RSM EquiCo filed a writ petition for interlocutory appeal of this certification ruling, which was denied. We intend to defend this case vigorously. The amount claimed in this action is substantial and could have a material adverse impact on our consolidated results of operations. There can be no assurance regarding the outcome of this matter.

RSM McGladrey, Inc. (RSM) has a relationship with certain public accounting firms (collectively, the Attest Firms) pursuant to which (1) some RSM employees are also partners or employees of the Attest Firms, (2) many clients of the Attest Firms are also RSM clients, and (3) our RSM McGladrey brand is closely linked to the Attest Firms. The Attest Firms are parties to claims and lawsuits (collectively, Attest Firm Claims) arising in the normal course of business. Judgments or settlements arising from Attest Firm Claims exceeding the Attest Firms insurance coverage could have a direct adverse effect on Attest Firm operations and could impair RSM s ability to attract and retain clients and quality professionals. For example, accounting and auditing firms (including one of the Attest Firms) have become subject to claims based on losses their clients suffered from investments in investment funds managed by third-parties. Although RSM may not have a direct liability for significant Attest Firm Claims, such Attest Firm Claims could have a material adverse effect on RSM s operations and impair the value of our investment in RSM. There is no assurance regarding the outcome of the Attest Firm Claims.

Litigation and Claims Pertaining to Discontinued Mortgage Operations

Although mortgage loan origination activities were terminated and the loan servicing business was sold during fiscal year 2008, SCC remains subject to investigations, claims and lawsuits pertaining to its loan origination and servicing activities that occurred prior to such termination and sale. These investigations, claims and lawsuits include actions by state attorneys general, other state regulators, municipalities, individual plaintiffs, and cases in which plaintiffs seek to represent a class of others alleged to be similarly situated. Among other things, these investigations, claims and lawsuits allege discriminatory or unfair and deceptive loan origination and servicing practices, public nuisance, fraud, and violations of the Truth in Lending Act, Equal Credit Opportunity Act and the Fair Housing Act. In the current non-prime mortgage environment, the number of these investigations, claims and lawsuits has increased over historical experience and is likely to continue at increased levels. The amounts claimed in these investigations, claims and lawsuits are substantial in some instances, and the ultimate resulting liability is difficult to predict. In the event of unfavorable outcomes, the amounts SCC may be required to pay in the discharge of liabilities or settlements could be substantial and, because SCC s operating results are included in our consolidated financial statements, could have a material adverse impact on our consolidated results of operations.

On June 3, 2008, the Massachusetts Attorney General filed a lawsuit in the Superior Court of Suffolk County, Massachusetts (Case No. 08-2474-BLS) entitled *Commonwealth of Massachusetts v. H&R Block, Inc., et al.*, alleging unfair, deceptive and discriminatory origination and servicing of mortgage loans and seeking equitable relief, disgorgement of profits, restitution and statutory penalties. In November 2008, the court granted a preliminary injunction limiting the ability of the owner of SCC s former loan servicing business to initiate or advance foreclosure actions against certain loans originated by SCC or its subsidiaries without (1) advance notice to the Massachusetts Attorney General and (2) if the Attorney General objects to foreclosure, approval by the court. The preliminary injunction generally applies to loans meeting all of the following four characteristics: (1) adjustable rate mortgages with an introductory period of three years or less; (2) the borrower has a debt-to-income ratio generally exceeding 50 percent; (3) an introductory interest rate at least 2 percent lower than the fully indexed rate (unless the

debt-to-income ratio is 55% or greater); and (4) loan-to-value ratio of 97 percent or certain prepayment penalties. We have appealed this preliminary injunction. We believe

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the claims in this case are without merit, and we intend to defend this case vigorously, but there are no assurances as to its outcome.

SCC also remains subject to potential claims for indemnification and loan repurchases pertaining to loans previously sold. In the current non-prime mortgage environment, it is likely that the frequency of repurchase and indemnification claims may increase over historical experience and give rise to additional litigation. In some instances, H&R Block, Inc. was required to guarantee SCC's obligations. The amounts involved in these potential claims may be substantial, and the ultimate resulting liability is difficult to predict. Because SCC's operating results are included in our consolidated financial statements, the amounts SCC may be required to pay in the discharge or settlement of these claims in the event of unfavorable outcomes could have a material adverse impact on our consolidated results of operations.

Other Claims and Litigation

We are from time to time party to investigations, claims and lawsuits not discussed herein arising out of our business operations. These investigations, claims and lawsuits include actions by state attorneys general, other state regulators, individual plaintiffs, and cases in which plaintiffs seek to represent a class of others similarly situated. Some of these investigations, claims and lawsuits pertain to RALs, the electronic filing of customers' income tax returns, the POM guarantee program, wage and hour claims and investment products. We believe we have meritorious defenses to each of these investigations, claims and lawsuits, and we are defending or intend to defend them vigorously. The amounts claimed in these matters are substantial in some instances, however the ultimate liability with respect to such matters is difficult to predict. In the event of an unfavorable outcome, the amounts we may be required to pay in the discharge of liabilities or settlements could be material.

In addition to the aforementioned types of matters, we are party to claims and lawsuits that we consider to be ordinary, routine litigation incidental to our business, including claims and lawsuits (collectively, Other Claims) concerning the preparation of customers' income tax returns, the fees charged customers for various products and services, relationships with franchisees, intellectual property disputes, employment matters and contract disputes. While we cannot provide assurance that we will ultimately prevail in each instance, we believe the amount, if any, we are required to pay in the discharge of liabilities or settlements in these Other Claims will not have a material adverse effect on our consolidated operating results, financial position or cash flows.

ITEM 1A. RISK FACTORS

Alternative Practice Structure with Public Accounting Firms. As previously disclosed, under an alternative practice structure arrangement, RSM and M&P and other public accounting firms (collectively, the Attest Firms) market their services jointly and provide services to a significant number of common clients. Through an administrative services agreement, RSM also provides operational and administrative support services to the Attest Firms, including accounting, payroll, human resources, marketing, administrative services and personnel, and office space and equipment. In return for these services, RSM receives a management fee and reimbursement of certain costs, mainly for the use of RSM-owned or leased real estate, property and equipment. If the RSM/Attest Firms relationship under the alternative practice structure were to be terminated, RSM could lose key employees and clients and may not be able to recoup its costs associated with the infrastructure used to provide the operational and administrative support services to the Attest Firms. A separation from M&P could result in reduced revenue, increased costs and reduced earnings and, if sufficiently significant, impairment of our investment in RSM.

On July 21, 2009, M&P provided notice of its intent to terminate the administrative services agreement between RSM and M&P. The effect of the notice will be to terminate the alternative practice structure on February 16, 2010, unless revoked or modified prior to that time. RSM and M&P are engaged in arbitration to determine several of their rights and responsibilities under their contracts, including rights of RSM relating to noncompete provisions of the contracts. In addition, the parties have held a series of meetings and discussions regarding several aspects of the relationship between RSM and M&P. If the parties do not reach an agreement to continue their relationship, RSM intends to seek alternative attest firms with which to affiliate and to continue to directly provide a full range of tax and business

consulting services. The extent of the impact of a separation by M&P cannot be determined at this time, although it could be material to RSM's financial condition and results of operations.

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There have been no other material changes in our risk factors from those reported at April 30, 2009 in our Annual Report on Form 10-K.

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

A summary of our purchases of H&R Block common stock during the first quarter of fiscal year 2010 is as follows:

		(in 000s, except per share amounts)			
		Total Number of Shares Purchased ⁽¹⁾	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum \$Value of Shares that May Be Purchased Under the Plans or Programs
May 1	May 31	-	\$ -	-	\$ 1,901,419
June 1	June 30	134	\$ 17.13	-	\$ 1,901,419
July 1	July 31	70	\$ 16.89	-	\$ 1,901,419

⁽¹⁾ We purchased 204,373 shares in connection with the funding of employee income tax withholding obligations arising upon the exercise of stock options or the lapse of restrictions on nonvested shares.

ITEM 6. EXHIBITS

- 10.1 Separation and Release Agreement dated July 28, 2009, by and between HRB Tax Group, Inc. and Timothy C. Gokey.*
- 10.2 H&R Block, Inc. Executive Severance Plan*
- 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 furnished 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 furnished pursuant to 18 U.S.C. 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002.
- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Schema
- 101.CAL XBRL Extension Calculation Linkbase
- 101.LAB XBRL Taxonomy Extension Label Linkbase
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase
- 101.REF XBRL Taxonomy Extension Reference Linkbase

* Indicates management contracts, compensatory plans or arrangements.

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SIGNATURES

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

H&R BLOCK, INC.

Russell P. Smyth
President and Chief Executive Officer
September 4, 2009

Becky S. Shulman
Senior Vice President, Treasurer and
Chief Financial Officer
September 4, 2009

Jeffrey T. Brown
Vice President and
Corporate Controller
September 4, 2009

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Compliance with Code Section 409A A-24

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AARON S, INC.

2015 EQUITY AND INCENTIVE PLAN

ARTICLE 1 PURPOSE AND GENERAL PROVISIONS

1.1 *Establishment of Plan.* Aaron s, Inc., a Georgia corporation (the Company), hereby establishes an incentive compensation plan to be known as the Aaron s, Inc. 2015 Equity and Incentive Plan (the Plan), as set forth in this document.

1.2 *Purpose of Plan.* The purpose of the Plan is to promote the long-term growth and profitability of the Company and its subsidiaries by (i) providing certain employees, directors, consultants, advisors and other persons who perform services for the Company and its subsidiaries with incentives to maximize shareholder value and otherwise contribute to the success of the Company, and (ii) enabling the Company to attract, retain and reward outstanding individuals to serve as directors, officers and employees.

1.3 *Types of Awards.* Awards under the Plan may be made to eligible Participants in the form of Incentive Stock Options, Nonqualified Stock Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, Performance Shares, Performance Units, Other Awards, Annual Incentive Awards, or any combination thereof.

1.4 *Effective Date.* The Plan shall be effective on March 10, 2015 (the Effective Date), the date it was adopted by the Compensation Committee of the Board of Directors of the Company, contingent upon approval by the Company s shareholders.

1.5 *Termination of the Plan.* No awards shall be granted under the Plan after the tenth (10th) anniversary of the Effective Date. Awards granted under the Plan on or prior to the tenth (10th) anniversary of the Effective Date shall remain outstanding beyond that date in accordance with the terms and conditions of the Plan and the Agreements corresponding to such Awards.

ARTICLE 2 DEFINITIONS

Except where the context otherwise indicates, the following definitions apply:

AGREEMENT means the written or electronic agreement evidencing an Award granted to a Participant under the Plan. As determined by the Committee, each Agreement shall consist of either (i) a written agreement in a form approved by the Committee and executed on behalf of the Company by an officer duly authorized to act on its behalf, or (ii) an electronic notice of Award in a form approved by the Committee and recorded by the Company (or its designee) in an electronic recordkeeping system used for the purpose of tracking Awards, and if required by the Committee, executed or otherwise electronically accepted by the recipient of the Award in such form and manner as the Committee may require. The Committee may authorize any officer of the Company (other than the particular Award recipient) to execute any or all Agreements on behalf the Company.

ANNUAL INCENTIVE AWARD mean an Award under Article 10 that entitles the Participant to receive a payment in cash or other property specified by the Committee to the extent performance goals are achieved.

AWARD means an award granted to a Participant under the Plan that consists of one or more Incentive Stock Options, Nonqualified Stock Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, Performance Shares, Performance Units, Other Awards, Annual Incentive Awards, or a combination of these.

BOARD means the Board of Directors of the Company.

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CAUSE means, unless provided otherwise in the Agreement, (i) the Participant's material fraud, malfeasance, gross negligence, or willful misconduct with respect to business affairs of the Employer, which is, or is reasonably likely to be if such action were to become known by others, directly or materially harmful to the business or reputation of the Employer; (ii) the Participant's conviction of or failure to contest prosecution for a felony or a crime involving fraud, embezzlement, theft or moral turpitude; (iii) the Participant's breach of the Agreement (including, without limitation, any provisions relating to maintaining confidential information and not soliciting the Employer's employees and customers); or (iii) the willful and continued failure or habitual neglect by the Participant to perform his duties with the Employer substantially in accordance with the operating and personnel policies and procedures of the Employer.

Cause shall be determined by the Committee in its sole discretion. Notwithstanding the foregoing, if the Participant has entered into an employment agreement with the Employer that is binding as of the date of employment termination, and if such employment agreement defines Cause, then the definition of Cause in such agreement shall apply to the Participant for Awards under this Plan.

CHANGE IN CONTROL means the occurrence of one of the following events:

(a) The acquisition (other than from the Company) by any Person of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act (but without regard to any time period specified in Rule 13d-3(d)(1)(i))), of thirty-five percent (35%) or more of the combined voting power of then outstanding securities of the Company entitled to vote generally in the election of directors (the Outstanding Company Voting Securities); excluding, however, (1) any acquisition by the Company or (2) any acquisition by an employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company;

(b) A majority of the members of the Board is replaced during any 12-month period by directors whose appointment or election is not endorsed by a majority of the members of the Board before the date of the appointment or election; or

(c) Consummation by the Company of a reorganization, merger, or consolidation or sale of all or substantially all of the assets of the Company (a Transaction); excluding, however, a Transaction pursuant to which (i) all or substantially all of the individuals or entities who are the beneficial owners, respectively, of the Outstanding Company Voting Securities immediately prior to such Transaction will beneficially own, directly or indirectly, more than 50 percent of the combined voting power of the outstanding securities of such corporation entitled to vote generally in the election of directors of the corporation resulting from such Transaction (including, without limitation, a corporation which as a result of such transaction owns the Company or all or substantially all of the Company's assets either directly or indirectly) in substantially the same proportions relative to each other as their ownership, immediately prior to such Transaction, of the Outstanding Company Voting Securities.

Notwithstanding the foregoing, for purposes of any 409A Award, if that Award provides for a change in the time or form of payment upon a Change in Control, then no Change in Control shall be deemed to have occurred upon an event described above unless the event would also constitute a change in ownership of the Company, a change in effective control of the Company, or a change in ownership of a substantial portion of the Company's assets under Code section 409A.

CODE means the Internal Revenue Code of 1986, as now in effect and as hereafter amended from time to time. Any reference to a particular section of the Code includes any applicable regulations promulgated under that section. All citations to sections of the Code are to such sections as they may from time to time be amended or renumbered.

COMMITTEE means the Compensation Committee of the Board or such other committee consisting of two or more members of the Board as may be appointed by the Board from time to time to administer this Plan pursuant to

Article 3. If the Common Stock is traded on the NASDAQ or the NYSE, all of the members of the Committee shall be independent directors within the meaning of the NASDAQ's or NYSE's listing standards (as

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applicable). If any member of the Committee does not qualify as (i) a Non-Employee Director within the meaning of Rule 16b-3 under the Exchange Act, and (ii) an outside director within the meaning of Code section 162(m), the Board shall appoint a subcommittee of the Committee, consisting of at least two Non-Employee Directors to grant Awards to Covered Employees and to Insiders; each member of such subcommittee shall satisfy the requirements of (i) and (ii) above. References to the Committee in the Plan shall include and, as appropriate, apply to any such subcommittee.

COMMON STOCK means the Common Stock of the Company, and any other shares into which such stock may be changed by reason of a recapitalization, reorganization, merger, consolidation or any other change in the corporate structure or capital stock of the Company

COMPANY means Aaron's, Inc., a Georgia corporation, and its successors and assigns.

COVERED EMPLOYEE means a Participant whom the Committee determines is or may be subject to the limitations of Code section 162(m).

DISABILITY means, with respect to any Incentive Stock Option, a disability as determined under Code section 22(e)(3), and with respect to any other Award, unless provided otherwise in an Agreement (in which case such definition shall apply for purposes of the Plan with respect to that particular Award), (i) with respect to a Participant who is eligible to participate in a program of long-term disability insurance maintained by the Employer, the date on which the insurer or administrator under such program of long-term disability insurance determines that the Participant is eligible to commence benefits under such program, and (ii) with respect to any Participant (including a Participant who is eligible to participate in a program of long-term disability insurance maintained by the Employer), the Participant's inability, due to physical or mental injury or illness, to perform the essential functions of his position with or without reasonable accommodation for a period of one hundred eighty (180) days, whether or not consecutive, occurring within any period of twelve (12) consecutive months, subject to any limitation imposed by federal, state or local laws, including, without limitation, the American with Disabilities Act.

Notwithstanding the preceding provisions of this definition or anything in any Agreement to the contrary, to the extent any provision of this Plan or an Agreement would cause a payment of a 409A Award to be made because of the Participant's Disability, then there shall not be a Disability that triggers payment until the date (if any) that the Participant is disabled within the meaning of Code section 409A(a)(2)(C). Any payment that would have been made except for the application of the preceding sentence shall be made in accordance with the payment schedule that would have applied in the absence of a Disability (and other Participant rights that are tied to a Disability, such as vesting, shall not be affected by the prior sentence).

EFFECTIVE DATE shall have the meaning ascribed to such term in Section 1.4 hereof.

EMPLOYEE means any individual whom the Employer treats as a common law employee for payroll tax purposes, either within or outside the United States.

EMPLOYER means the Company and the Subsidiaries.

EXCHANGE ACT means the Securities Exchange Act of 1934, as now in effect and as hereafter amended from time to time. Any reference to a particular section of the Exchange Act includes any applicable regulations promulgated under that section. All citations to sections of the Exchange Act or rules thereunder are to such sections or rules as they may from time to time be amended or renumbered.

FAIR MARKET VALUE of a share of Common Stock of the Company means, as of the date in question,

(a) if the Common Stock is listed for trading on the NASDAQ, the closing sale price of a share of Common Stock on such date, as reported by the NASDAQ or such other source as the Committee deems reliable, or if no such reported sale of the Common Stock shall have occurred on such date, on the last day prior to such date on which there was such a reported sale;

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(b) if the Common Stock is listed for trading on the NYSE, the closing sale price of a share of Common Stock on such date, as reported by the NYSE or such other source as the Committee deems reliable, or if no such reported sale of the Common Stock shall have occurred on such date, on the last day prior to such date on which there was such a reported sale;

(c) if the Common Stock is not listed for trading on the NASDAQ or the NYSE but is listed for trading on another national securities exchange, the closing sale price of a share of Common Stock on such date as reported on such exchange, or if no such reported sale of the Common Stock shall have occurred on such date, on the last day prior to such date on which there was such a reported sale;

(d) if the Common Stock is not listed for trading on a national securities exchange but nevertheless is publicly traded and reported (through the OTC Bulletin Board or otherwise), the closing sale price of a share of Common Stock on such date, or if no such reported sale of the Common Stock shall have occurred on such date, on the last day prior to such date on which there was such a reported sale; or

(e) if the Common Stock is not publicly traded and reported, the fair market value as established in good faith by the Committee or the Board.

For purposes of subsection (c) above, if the Common Stock is not traded on the NASDAQ or the NYSE but is traded on more than one other securities exchange on the given date, then the largest exchange on which the Common Stock is traded shall be referenced to determine Fair Market Value.

Notwithstanding the foregoing but subject to the next paragraph, if the Committee determines in its discretion that an alternative definition of Fair Market Value should be used in connection with the grant, exercise, vesting, settlement or payout of any Award, it may specify such alternative definition in the Agreement applicable to the Award. Such alternative definition may include a price that is based on the opening, actual, high, low, or average selling prices of a share of Common Stock on the NASDAQ or other securities exchange on the given date, the trading date preceding the given date, the trading date next succeeding the given date, or an average of trading days.

Notwithstanding the foregoing, (i) in the case of an Option or SAR, Fair Market Value shall be determined in accordance with a definition of fair market value that permits the Award to be exempt from Code section 409A; and (ii) in the case of an Option that is intended to qualify as an ISO under Code section 422 or a Qualified Performance-Based Award, Fair Market Value shall be determined by the Committee in accordance with the requirements of Code section 422 or Code section 162(m), as applicable.

409A AWARD means an Award that is not exempt from Code section 409A.

GENERAL AWARD means an Award that is not a Qualified Performance-Based Award.

INCENTIVE STOCK OPTION or ISO means an Option that is designated as an incentive stock option and intended to meet the requirements of Code section 422.

INSIDER shall mean an individual who is, on the relevant date, subject to the reporting requirements of Exchange Act section 16(a).

NASDAQ means The NASDAQ Stock Market LLC or its successor.

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NON-EMPLOYEE means any consultant or advisor, other than an Employee or Non-Employee Director, who provides bona fide services to the Employer not in connection with the offer or sale of securities in a capital raising transaction.

NON-EMPLOYEE DIRECTOR means any individual who is a member of the Board and who is not also employed by the Employer.

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NONQUALIFIED STOCK OPTION or **NQSO** means any Option that is not designated as an incentive stock option or that otherwise does not meet the requirements of Code section 422.

NYSE means the New York Stock Exchange or its successor.

OPTION means an Award granted under Article 5 that is either an Incentive Stock Option or a Nonqualified Stock Option. An Option shall be designated as either an Incentive Stock Option or a Nonqualified Stock Option, and in the absence of such designation, shall be treated as a Nonqualified Stock Option.

OPTION EXERCISE PRICE means the price at which a share of Common Stock may be purchased by a Participant pursuant to the exercise of an Option.

OTHER AWARD means any form of equity-based or equity-related award, other than an Option, a Stock Appreciation Right, Restricted Stock, a Restricted Stock Unit, a Performance Share, a Performance Unit or an Annual Incentive Award, that is granted pursuant to Article 9.

PARTICIPANT means an Employee, Non-Employee or Non-Employee Director who is eligible to receive or has received an Award under this Plan.

PERFORMANCE PERIOD shall have the meaning ascribed to such term in Section 8.3.

PERFORMANCE SHARE means an Award under Article 8 of the Plan that is valued by reference to a share of Common Stock, which value may be paid to the Participant by delivery of cash or other property as the Committee shall determine upon achievement of such performance objectives during the relevant Performance Period as the Committee shall establish at the time of such Award or thereafter, but not later than the time permitted by Code section 162(m) in the case of a Covered Employee, unless the Committee does not intend for such Award to be a Qualified Performance-Based Award.

PERFORMANCE UNIT means an Award under Article 8 of the Plan that has a value set by the Committee (or that is determined by reference to a valuation formula specified by the Committee), which value may be paid to the Participant by delivery of cash or other property as the Committee shall determine upon achievement of such performance objectives during the relevant Performance Period as the Committee shall establish at the time of such Award or thereafter, but not later than the time permitted by Code section 162(m) in the case of a Covered Employee, unless the Committee does not intend for such Award to be a Qualified Performance-Based Award.

PERMITTED TRANSFEREE means any members of the immediate family of the Participant (i.e., spouse, children, and grandchildren), any trusts for the benefit of such family members or any partnerships whose only partners are such family members.

PERSON means any person or group as those terms are used in Exchange Act Sections 13(d) and 14(d).

PLAN means the Aaron's, Inc. 2015 Equity and Incentive Plan set forth in this document and as it may be amended from time to time.

PRIOR PLAN means the Aaron's, Inc. 2001 Stock Option and Incentive Award Plan, as amended from time to time.

QUALIFIED PERFORMANCE-BASED AWARD means an Award (or a specified portion of an Award) to a Participant that is intended to satisfy the requirements for the Section 162(m) Exception.

RESTRICTED STOCK means an Award of shares of Common Stock under Article 7 of the Plan, which shares are issued with such restrictions as the Committee, in its sole discretion, may impose.

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RESTRICTED STOCK UNIT or **RSU** means an Award under Article 7 of the Plan that is valued by reference to a share of Common Stock, which value may be paid to the Participant by delivery of cash or other property as the Committee shall determine and that has such restrictions as the Committee, in its sole discretion, may impose.

RESTRICTION PERIOD means the period commencing on the date an Award of Restricted Stock or an RSU is granted and ending on such date as the Committee shall determine, during which time the Award is subject to forfeiture as provided in the Agreement.

SECTION 162(M) EXCEPTION means the performance-based compensation exception to the deductibility limitation of Code section 162(m).

SHARE POOL shall have the meaning ascribed to such term in in Section 4.1.

STOCK APPRECIATION RIGHT or **SAR** means an Award granted under Article 6 that provides for delivery of cash or other property as the Committee shall determine with a value equal to the excess of the Fair Market Value of a share of Common Stock on the day the Stock Appreciation Right is exercised over the specified exercise price.

SUBSIDIARY means a corporation or other entity of which outstanding shares or ownership interests representing 50% or more of the combined voting power of such corporation or other entity entitled to elect the management thereof are owned directly or indirectly by the Company. With respect to all purposes of the Plan, including but not limited to, the establishment, amendment, termination, operation and administration of the Plan, the Company and the Committee shall be authorized to act on behalf of all other entities included within the definition of **Subsidiary**.

ARTICLE 3 ADMINISTRATION; POWERS OF THE COMMITTEE

3.1 *General.* This Plan shall be administered by the Committee.

3.2 *Authority of the Committee.*

(a) Subject to the provisions of the Plan, the Committee shall have the full and discretionary authority to (i) select the persons who are eligible to receive Awards under the Plan, (ii) determine the form and substance of Awards made under the Plan and the conditions and restrictions, if any, subject to which such Awards will be made, (iii) modify the terms of Awards made under the Plan, (iv) interpret, construe and administer the Plan and Awards granted thereunder, (v) make any adjustments necessary or desirable in connection with Awards made under the Plan to eligible Participants located outside the United States, and (vi) adopt, amend, or rescind such rules and regulations, and make such other determinations, for carrying out the Plan as it may deem appropriate.

(b) The Committee may correct any defect, supply any omission or reconcile any inconsistency in the Plan or any Agreement in the manner and to the extent it shall deem desirable to carry it into effect.

(c) Decisions of the Committee on all matters relating to the Plan shall be in the Committee's sole discretion and shall be conclusive, final and binding on all parties. The validity, construction, and effect of the Plan and any rules and regulations relating to the Plan shall be determined in accordance with applicable federal and state laws and rules and regulations promulgated pursuant thereto.

(d) In the event the Company shall assume outstanding equity awards or the right or obligation to make such awards in connection with the acquisition of another corporation or business entity, the Committee may, in its discretion, make such adjustments in the terms of Awards as it shall deem equitable and appropriate to prevent dilution or

enlargement of benefits intended to be made under the Plan.

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(e) In making any determination or in taking or not taking any action under the Plan, the Committee may obtain and may rely on the advice of experts, including but not limited to employees of the Company and professional advisors.

3.3 Rules for Foreign Jurisdictions. Notwithstanding anything in the Plan to the contrary, the Committee may, in its sole discretion, (i) amend or vary the terms of the Plan in order to conform such terms with the requirements of each non-U.S. jurisdiction where a Participant works or resides or to meet the goals and objectives of the Plan; (ii) establish one or more sub-plans for these purposes; and (iii) establish administrative rules and procedures to facilitate the operation of the Plan in such non-U.S. jurisdictions. For purposes of clarity, the terms and conditions contained herein that are subject to variation in a non-U.S. jurisdiction shall be reflected in a written addendum to the Plan with respect to each Participant or group of Participants affected by such non-U.S. jurisdiction.

3.4 Delegation of Authority. The Committee may, in its discretion, at any time and from time to time, delegate to one or more of its members such of its authority as it deems appropriate (provided that any such delegation shall be to at least two members of the Committee with respect to Awards to Covered Employees and Insiders). Except with respect to the grant or amendment or certification of performance of Qualified Performance-Based Awards, the Committee may, at any time and from time to time, delegate to one or more other members of the Board such of its authority as it deems appropriate. To the extent permitted by law and applicable stock exchange rules, the Committee may also delegate its authority to one or more persons who are not members of the Board, except that no such delegation will be permitted with respect to Covered Employees and Insiders.

3.5 Agreements. Each Award granted under the Plan shall be evidenced by an Agreement. Each Agreement shall be subject to and incorporate, by reference or otherwise, the applicable terms and conditions of the Plan, and any other terms and conditions, not inconsistent with the Plan, as may be imposed by the Committee, including without limitation, provisions related to the consequences of termination of employment. Each Agreement shall specify the period over which the Award will vest or with respect to which any risk of substantial forfeiture will lapse. A copy of the Agreement shall be provided to the Participant, and the Committee may, but need not, require that the Participant sign (or otherwise acknowledge receipt of) a copy of the Agreement or a copy of a notice of grant. Each Participant may be required, as a condition to receiving an Award under this Plan, to enter into an agreement with the Company containing such non-compete, confidentiality, and/or non-solicitation provisions as the Committee may adopt and approve from time to time (as so modified or amended, the Non-Compete Agreement). The provisions of the Non-Compete Agreement may also be included in, or incorporated by reference in, the Agreement.

3.6 Indemnification. No member or former member of the Committee or the Board or person to whom the Committee has delegated responsibility under the Plan shall be liable for any action or determination made in good faith with respect to the Plan or any Award granted under it. The Company shall indemnify and hold harmless each member and former member of the Committee and the Board against all cost or expense (including counsel fees and expenses) or liability (including any sum paid in settlement of a claim with the approval of the Board) arising out of any act or omission to act in connection with the Plan, unless arising out of such member's or former member's own willful misconduct, fraud, bad faith or as expressly prohibited by statute. Such indemnification shall be in addition (without duplication) to any rights to indemnification or insurance the member or former member may have as a director or under the by-laws of the Company or otherwise.

ARTICLE 4 SHARES AVAILABLE UNDER THE PLAN

4.1 Number of Shares. Subject to adjustment as provided in this Section 4.1 and in Section 4.3, the aggregate number of shares of Common Stock that are available for issuance pursuant to Awards granted under the Plan is five million (5,000,000) shares (the Share Pool). All of the Share Pool may, but is not required to, be issued pursuant to Incentive Stock Options. If Awards are granted in substitution or assumption of awards of

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an entity acquired, by merger or otherwise, by the Company (or any Subsidiary), to the extent such grant shall not be inconsistent with the terms, limitations and conditions of Code section 422, Exchange Act Rule 16b-3 or applicable NASDAQ or NYSE rules, the number of shares subject to such substitute or assumed Awards shall not increase or decrease the Share Pool.

The shares issued pursuant to Awards under the Plan shall be made available from shares currently authorized but unissued or shares currently held (or subsequently acquired) by the Company as treasury shares, including shares purchased in the open market or in private transactions.

No further grants shall be made under the Prior Plan after the record date for the Company's 2015 annual shareholders meeting (the Record Date); provided, however, if the shareholders do not approve the Plan at the 2015 annual shareholders meeting, the Prior Plan shall continue in effect and grants may continue to be made under the Prior Plan.

The following rules shall apply for purposes of the determination of the number of shares of Common Stock available for grants of Awards under the Plan:

- (a) Each Option shall be counted as one share subject to an Award and deducted from the Share Pool.
- (b) Each share of Restricted Stock, each Restricted Stock Unit that may be settled in shares of Common Stock, and each Other Award that may be settled in shares of Common Stock shall be counted as one share subject to an Award and deducted from the Share Pool. Restricted Stock Units and Other Awards that may not be settled in shares of Common Stock shall not result in a deduction from the Share Pool.
- (c) Each Performance Share that may be settled in shares of Common Stock shall be counted as one share subject to an Award, based on the number of shares that would be paid under the Performance Share for achievement of target performance, and deducted from the Share Pool. Each Annual Incentive Award and each Performance Unit that may be settled in shares of Common Stock shall be counted as a number of shares subject to an Award, based on the number of shares that would be paid under the Annual Incentive Award or Performance Unit for achievement of target performance, with the number determined by dividing the value of the Annual Incentive Award or Performance Unit at the time of grant by the Fair Market Value of a share of Common Stock at the time of grant, and this number shall be deducted from the Share Pool. In the event that the Award (of Performance Shares, Performance Units or an Annual Incentive Award) is later settled based on above-target performance, the additional number of shares of Common Stock corresponding to the above-target performance, calculated pursuant to the applicable methodology specified above, shall be deducted from the Share Pool at the time of such settlement; in the event that the Award is later settled based on below-target performance, the difference between the number of shares of Common Stock awarded based on the below-target performance and the number previously deducted from the Share Pool based on the target performance, calculated pursuant to the applicable methodology specified above, shall be added back to the Share Pool. Annual Incentive Awards, Performance Shares and Performance Units that may not be settled in shares of Common Stock shall not result in a deduction from the Share Pool.
- (d) Each Stock Appreciation Right that may be settled in shares of Common Stock shall be counted as one share subject to an Award and deducted from the Share Pool. Stock Appreciation Rights that may not be settled in shares of Common Stock shall not result in a reduction from the Share Pool.
- (e) If, for any reason, any shares subject to an Award under the Plan are not issued or are returned to the Company, for reasons including, but not limited to, a forfeiture of Restricted Stock or a Restricted Stock Unit, or the termination, expiration or cancellation of an Option, Stock Appreciation Right, Restricted Stock, Restricted Stock Unit, Performance Share, Performance Unit, or Other Award, or settlement of any Award in cash rather than shares, such

shares shall again be available for Awards under the Plan and, if originally deducted from the Share Pool, shall be added back to the Share Pool.

(f) If, for any reason, after the Record Date any shares subject to an award under the Prior Plan are not issued or are returned to the Company, for reasons including, but not limited to, a forfeiture of restricted

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stock or a restricted stock unit, or the termination, expiration or cancellation of an option, stock appreciation right, restricted stock, restricted stock unit, performance share, performance unit, or other award, or settlement of any award in cash rather than shares, such shares shall be available for Awards under the Plan and shall be added to the Share Pool.

(g) Notwithstanding anything to contrary contained herein, if the Option Exercise Price, purchase price and/or tax withholding obligation under an Award is satisfied by the Company retaining shares or by the Participant tendering shares (either by actual delivery or attestation), the number of shares so retained or tendered shall be deemed delivered for purposes of determining the Share Pool and shall not be available for further Awards under the Plan. To the extent an SAR that may be settled in shares of Common Stock is, in fact, settled in shares of Common Stock, the gross number of shares subject to such Stock Appreciation Right shall be deemed delivered for purposes of determining the Share Pool and shall not be available for further Awards under the Plan. Similarly, after the Record Date, if the option exercise price, purchase price and/or tax withholding obligation under a Prior Plan award is satisfied by the Company retaining shares or by the holder tendering shares (either by actual delivery or attestation), the number of shares so retained or tendered shall be deemed delivered for purposes of determining the Share Pool and shall not be available for further Awards under the Plan. Shares reacquired by the Company on the open market or otherwise using cash proceeds from the exercise of Options or, after the Record Date, options under any Prior Plan, shall not be added back to the Share Pool.

4.2 *Individual Limits.* Subject to adjustment as provided in Section 4.3, the following rules shall apply to Awards under the Plan:

(a) The maximum number of Options and Stock Appreciation Rights that, in the aggregate, may be granted in any one fiscal year of the Company to any one Participant shall be one million (1,000,000).

(b) The maximum number of shares of Restricted Stock and Restricted Stock Units intended to be Qualified Performance-Based Awards that, in the aggregate, may be granted in any one fiscal year of the Company to any one Participant shall be six hundred thousand (600,000).

(c) The maximum aggregate payout (determined as of the end of the applicable Performance Period) with respect to Performance Units intended to be Qualified Performance-Based Awards granted in any one fiscal year of the Company to any one Participant shall be Five Million Dollars (\$5,000,000). The maximum number of shares of Common Stock subject to Awards of Performance Shares intended to be Qualified Performance-Based Awards granted in any one fiscal year of the Company to any one Participant shall be six hundred thousand (600,000).

(d) The maximum number of Other Awards intended to be Qualified- Performance-Based Awards that, in the aggregate, may be granted in any one fiscal year of the Company to any one Participant shall equal the Fair Market Value of six hundred thousand (600,000) shares of Common Stock (determined as of the grant date). This limitation shall be applied based on the maximum amount that could be paid under each Other Award.

(e) The maximum aggregate payout (determined as of the end of the applicable Performance Period) with respect to Annual Incentive Awards intended to be Qualified Performance-Based Awards granted in any one fiscal year of the Company to any one Participant shall be Five Million Dollars (\$5,000,000). If any Annual Incentive Award is settled by payment of shares of Common Stock, the value of the payout for purposes of this limit shall be calculated based on the Fair Market Value of the shares on the date the Annual Incentive Award would be paid to the Participant, ignoring any deferral under an applicable plan of the Company.

(f) The maximum aggregate number of shares under all Awards granted in any one fiscal year of the Company to any one Non-Employee Director (excluding Awards made at the election of the Non-Employee Director in lieu of all or a portion of the Non-Employee Director's annual and committee cash retainer fees) shall not exceed twenty thousand (20,000) shares.

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For purposes of the Section 162(m) Exception, any Award that is denominated in shares of Common Stock may be settled in cash based on the Fair Market Value of the Award as of the applicable vesting or payment date.

The multipliers specified in subsections (a) through (g) of Section 4.1 shall not apply for purposes of applying the foregoing individual limitations of this Section 4.2.

4.3 Adjustment of Shares. If any change in corporate capitalization, such as a stock split, reverse stock split, stock dividend, or any corporate transaction such as a reorganization, reclassification, merger or consolidation or separation, including a spin-off, of the Company or sale or other disposition by the Company of all or a portion of its assets, any other change in the Company's corporate structure, or any distribution to shareholders (other than an ordinary cash dividend) results in the outstanding shares of Common Stock, or any securities exchanged therefor or received in their place, being exchanged for a different number or class of shares or other securities of the Company, or for shares of stock or other securities of any other corporation (or new, different or additional shares or other securities of the Company or of any other corporation being received by the holders of outstanding shares of Common Stock), or a material change in the value of the outstanding shares of Common Stock as a result of the change, transaction or distribution, then the Committee shall make equitable adjustments, as it determines are necessary and appropriate to prevent the enlargement or dilution of benefits intended to be made available under the Plan, in:

- (a) the number and class of stock or other securities that comprise the Share Pool as set forth in Section 4.1, including, without limitation, with respect to Incentive Stock Options;
- (b) the limitations on the aggregate number of shares of Common Stock that may be awarded to any one Participant under various Awards as set forth in Section 4.2;
- (c) the number and class of stock or other securities subject to outstanding Awards, and which have not been issued or transferred under an outstanding Award;
- (d) the Option Exercise Price under outstanding Options, the exercise price under outstanding Stock Appreciation Rights, and the number of shares of Common Stock to be transferred in settlement of outstanding Awards; and
- (e) the terms, conditions or restrictions of any Award and Agreement, including but not limited to the price payable for the acquisition of shares of Common Stock.

It is intended that, if possible, any adjustment contemplated above shall be made in a manner that satisfies applicable legal requirements as well as applicable requirements with respect to taxation (including, without limitation and as applicable in the circumstances, Code section 424, Code section 409A, and Code section 162(m)) and accounting (so as to not trigger any charge to earnings with respect to such adjustment).

Without limiting the generality of the above, any good faith determination by the Committee as to whether an adjustment is required in the circumstances and the extent and nature of any such adjustment shall be final, conclusive and binding on all persons.

ARTICLE 5 STOCK OPTIONS

5.1 Grant of Options. Subject to the terms and provisions of the Plan, the Committee may from time to time grant Options to eligible Participants. The Committee shall have sole discretion in determining the number of shares subject to Options granted to each Participant. The Committee may grant a Participant ISOs, NQSOs or a combination thereof, and may vary such Awards among Participants; provided that the Committee may grant Incentive Stock

Options only to individuals who are employees (within the meaning of Code section 3401(c)) of the Company or its subsidiaries (as defined for this purpose in Code section 424(f)). Notwithstanding anything in this Article 5 to the contrary, except for Options that are specifically designated as intended to be subject to Code section 409A, the Committee may only grant Options to individuals who provide direct services on the date of grant of the Options to the Company or another entity in a chain of entities in which the Company or another such entity has a controlling interest (within the meaning of Treasury Regulation section 1.409A-1(b)(5)(iii)(e)) in each entity in the chain.

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5.2 Agreement. Each Option grant shall be evidenced by an Agreement that shall specify the Option Exercise Price, the duration of the Option, the number of shares of Common Stock to which the Option pertains, the conditions upon which the Option shall become vested and exercisable and such other provisions as the Committee shall determine. The Option Agreement shall further specify whether the Award is intended to be an ISO or an NQSO. Any portion of an Option that is not designated in the Agreement as an ISO or otherwise fails or is not qualified as an ISO (even if designated as an ISO) shall be an NQSO. Dividend equivalents shall not be paid with respect to Options.

5.3 Option Exercise Price. The per share Option Exercise Price for each Option shall not be less than one hundred percent (100%) of the Fair Market Value of a share of Common Stock on the date the Option is granted. Notwithstanding the foregoing, an Option may be granted with an Option Exercise Price lower than set forth in the preceding sentence if such Option is granted pursuant to an assumption or substitution for another Option in a manner satisfying the provisions of Code section 424(a) relating to a corporate merger, consolidation, acquisition of property or stock, separation, reorganization, spinoff, or liquidation; provided that the Committee determines that such Option Exercise Price is appropriate to preserve the economic benefit of the replaced award and will not impair the exemption of the Option from Code section 409A (unless the Committee clearly and expressly foregoes such exemption at the time the Option is granted).

5.4 Duration of Options. Each Option shall expire at such time as the Committee shall determine at the time of grant; provided, however, that no Option shall be exercisable later than the tenth (10th) anniversary of its grant date. If an Agreement does not specify an expiration date, the Option's expiration date shall be the 10th anniversary of its grant date.

5.5 Exercise of Options. Options shall be exercisable at such times and be subject to such restrictions and conditions as the Committee shall specify, including conditions related to the employment of the Participant with the Employer or provision of services by the Participant to the Employer, which need not be the same for each grant or for each Participant. The Committee may provide in the Agreement for automatic exercise on a certain date and/or for accelerated vesting and other rights upon the occurrence of events specified in the Agreement.

5.6 Payment. Options shall be exercised, in whole or in part, by the delivery of an oral, written or electronic notice of exercise to the Company or its designated representative in the form prescribed by the Company, setting forth the number of shares of Common Stock with respect to which the Option is to be exercised and satisfying any requirements that the Committee may apply from time to time. Full payment of the Option Exercise Price for such shares (less any amount previously paid by the Participant to acquire the Option) must be made on or prior to the Payment Date, as defined below. The Option Exercise Price shall be paid to the Company in United States dollars either: (a) in cash, (b) by check, bank draft, money order or other cash equivalent approved by the Committee, (c) unless not permitted by the Committee, by tendering previously acquired shares of Common Stock (or delivering a certification or attestation of ownership of such shares) having an aggregate Fair Market Value at the time of exercise equal to the total Option Exercise Price (provided that the tendered shares must have been held by the Participant for any period required by the Committee), (d) unless not permitted by the Committee, by cashless exercise as permitted under Federal Reserve Board's Regulation T, subject to applicable securities law restrictions, (e) by any other means which the Committee determines to be consistent with the Plan's purpose and applicable law, including a net exercise; or (f) by a combination of the foregoing. Payment Date shall mean the date on which a sale transaction in connection with a cashless exercise (whether or not payment is actually made pursuant to a cashless exercise) would have settled in connection with the Option exercise. No certificate or cash representing a share of Common Stock shall be delivered until the full Option Exercise Price has been paid.

5.7 Special Rules for ISOs. The following rules apply notwithstanding any other terms of the Plan.

(a) No ISOs may be granted under the Plan after the 10th anniversary of the date the Plan was approved by the Board.

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(b) In no event shall any Participant who owns (within the meaning of Code section 424(d)) stock of the Company possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or any parent or subsidiary (within the meaning of Code section 424(e) or (f), respectively) be eligible to receive an ISO (i) at an Option Exercise Price less than one hundred ten percent (110%) of the Fair Market Value of a share of Common Stock on the date the ISO is granted, or (ii) that is exercisable later than the fifth (5th) anniversary date of its grant date.

(c) The aggregate Fair Market Value of shares of Common Stock with respect to which ISOs (within the meaning of Code section 422) granted to a Participant are first exercisable in any calendar year under the Plan and all other incentive stock option plans of the Employer shall not exceed One Hundred Thousand Dollars (\$100,000). For this purpose, Fair Market Value shall be determined with respect to a particular ISO on the date on which such ISO is granted. In the event that this One Hundred Thousand Dollar (\$100,000) limit is exceeded with respect to a Participant, then ISOs granted under this Plan to such Participant shall, to the extent and in the order required by Treasury Regulations under Code section 422, automatically become NQSOs granted under this Plan.

(d) Solely for purposes of determining the limit on ISOs that may be granted under the Plan, the provisions of Section 4.1 that replenish the Share Pool shall only be applied to the extent permitted by Code section 422 and the regulations promulgated thereunder.

ARTICLE 6 STOCK APPRECIATION RIGHTS

6.1 *Grant of SARs.* Subject to the terms and provisions of the Plan, the Committee may grant SARs to Participants in such amounts and upon such terms, and at any time and from time to time, as the Committee shall determine. A Stock Appreciation Right shall entitle the holder, within the specified period (which may not exceed 10 years), to exercise the SAR and receive in exchange therefor a payment having an aggregate value equal to the amount by which the Fair Market Value of a share of Common Stock on the exercise date exceeds the specified exercise price, times the number of shares with respect to which the SAR is exercised. The Committee may provide in the Agreement for automatic exercise on a certain date, for payment of the proceeds on a certain date, and/or for accelerated vesting and other rights upon the occurrence of events specified in the Agreement. Notwithstanding anything in this Article 6 to the contrary, except for SARs that are specifically designated as intended to be subject to Code section 409A, the Committee may only grant SARs to individuals who provide direct services on the date of grant of the SARs to the Company or another entity in a chain of entities in which the Company or another such entity has a controlling interest (within the meaning of Treasury Regulation section 1.409A-1(b)(5)(iii)(e)) in each entity in the chain.

6.2 *Agreement.* Each SAR grant shall be evidenced by an Agreement that shall specify the exercise price, the duration of the SAR, the number of shares of Common Stock to which the SAR pertains, the conditions upon which the SAR shall become vested and exercisable and such other provisions as the Committee shall determine. Dividend equivalents shall not be paid with respect to SARs.

6.3 *Duration of SARs.* Each SAR shall expire at such time as the Committee shall determine at the time of grant; provided, however, that no SAR shall be exercisable later than the tenth (10th) anniversary of its grant date. If an Agreement does not specify an expiration date, the SAR's expiration date shall be the 10th anniversary of its grant date.

6.4 *Payment.* The Committee shall have sole discretion to determine in each Agreement whether the payment with respect to the exercise of a Stock Appreciation Right will be in the form of all cash, all shares of Common Stock, or any combination thereof. Unless and to the extent the Committee specifies otherwise, such payment will be in the form of shares of Common Stock. If payment is to be made in shares, the number of shares shall be determined based

on the Fair Market Value of a share on the date of exercise. The Committee shall have sole discretion to determine and set forth in the Agreement the timing of any payment made in cash or shares, or a combination thereof, upon exercise of SARs.

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6.5 Exercise Price. The exercise price for each Stock Appreciation Right shall be determined by the Committee and shall not be less than one hundred percent (100%) of the Fair Market Value of a share of Common Stock on the date the SAR is granted. Notwithstanding the foregoing, an SAR may be granted with an exercise price lower than set forth in the preceding sentence if such SAR is granted pursuant to an assumption or substitution for another SAR in a manner satisfying the provisions of Code section 424(a) relating to a corporate merger, consolidation, acquisition of property or stock, separation, reorganization, or liquidation; provided that the Committee determines that such SAR exercise price is appropriate to preserve the economic benefit of the replaced award and will not impair the exemption of the SAR from Code section 409A (unless the Committee clearly and expressly foregoes such exemption at the time the SAR is granted).

6.6 Exercise of SARs. SARs shall be exercisable at such times and be subject to such restrictions and conditions as the Committee shall specify, including conditions related to the employment of the Participant with the Employer or provision of services by the Participant to the Employer, which need not be the same for each grant or for each Participant. The Committee may provide in the Agreement for automatic accelerated vesting and other rights upon the occurrence of events specified in the Agreement.

ARTICLE 7 RESTRICTED STOCK AND RESTRICTED STOCK UNITS

7.1 Grant of Restricted Stock and Restricted Stock Units. Subject to provisions of the Plan, the Committee may from time to time grant Awards of Restricted Stock and RSUs to Participants. Awards of Restricted Stock and RSUs may be made either alone or in addition to or in tandem with other Awards granted under the Plan.

7.2 Agreement. The Restricted Stock or RSU Agreement shall set forth the terms of the Award, as determined by the Committee, including, without limitation, the number of shares of Restricted Stock or the number of RSUs granted; the purchase price, if any, to be paid for such Restricted Stock or RSUs, which may be equal to or less than Fair Market Value of a share and may be zero, subject to such minimum consideration as may be required by applicable law; any restrictions applicable to the Restricted Stock or RSU such as continued service or achievement of performance objectives; the length of the Restriction Period, if any, and any circumstances that will shorten or terminate the Restriction Period; and rights of the Participant to vote or receive dividends or dividend equivalents with respect to the shares during the Restriction Period. The Restriction Period may be of any duration and the Agreement may provide for lapse of the Restriction Period in monthly or longer installments over the course of the Restriction Period, as determined by the Committee. The Committee shall have sole discretion to determine and specify in each RSU Agreement whether the RSUs will be settled in the form of all cash, all shares of Common Stock, or any combination thereof. Unless and to the extent the Committee specifies otherwise, such settlement will be in the form of shares of Common Stock.

7.3 Certificates. Upon an Award of Restricted Stock to a Participant, shares of restricted Common Stock shall be registered in the Participant's name. Certificates, if issued, may either (i) be held in custody by the Company until the Restriction Period expires or until restrictions thereon otherwise lapse, and/or (ii) be issued to the Participant and registered in the name of the Participant, bearing an appropriate restrictive legend and remaining subject to appropriate stop-transfer orders. If required by the Committee, the Participant shall deliver to the Company one or more stock powers endorsed in blank relating to the Restricted Stock. Upon settlement of an RSU in shares, and, with respect to Restricted Stock, if and when the Restriction Period expires without a prior forfeiture of the Restricted Stock subject to such Restriction Period, unrestricted certificates for such shares shall be delivered to the Participant or registered in the Participant's name on the Company's or transfer agent's records; provided, however, that the Committee may cause such legend or legends to be placed on any such certificates as it may deem advisable under the terms of the Plan and the rules, regulations and other requirements of the Securities and Exchange Commission and any applicable federal or state law. Concurrently with the settlement of RSUs by the delivery of shares and with the

lapse of any risk of forfeiture applicable to the Restricted Stock, the Participant shall be required to pay to the Company an amount necessary to satisfy any applicable federal, state and local tax requirements as set out in Article 15 below.

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7.4 Dividends and Other Distributions. Except as provided in this Article 7 or in the applicable Agreement, a Participant who receives a Restricted Stock Award shall have (during and after the Restriction Period), with respect to such Restricted Stock Award, all of the rights of a shareholder of the Company, including the right to vote the shares and the right to receive dividends and other distributions to the extent, if any, such shares possess such rights; provided, however, the Committee may require that any dividends on such shares of Restricted Stock (during the Restriction Period) be automatically deferred and reinvested in additional Restricted Stock subject to the same restrictions as the underlying Award, or may require that dividends and other distributions on Restricted Stock (during the Restriction Period) be paid to the Company for the account of the Participant and held pending and subject to the same restrictions on vesting as the underlying Award; provided, however that to the extent that any dividends are deferred, reinvested or otherwise not paid when such dividends would otherwise normally be paid (i) all terms and conditions for such delayed payment shall be included in the Agreement, and (ii) such deferral, reinvestment or delay in payment of the dividends shall only be allowed to the extent it complies with, or is exempt from, the requirements of Code section 409A. The Committee shall determine whether interest shall be paid on such amounts, the rate of any such interest, and the other terms applicable to such amounts (again, provided that all such terms shall, to the extent required, comply with Code section 409A). A Participant receiving a Restricted Stock Unit Award shall not possess voting rights and shall accrue dividend equivalents on such Units only to the extent provided in the Agreement relating to the Award; provided, however, that rights to dividend equivalents shall only be allowed to the extent they comply with, or are exempt from, Code section 409A. The Committee shall require that any such dividend equivalents be subject to the same restrictions on vesting and payment as the underlying Award. In addition, with respect to Covered Employees, the Committee may apply any restrictions it deems appropriate to the payment of dividends declared with respect to Restricted Stock such that the dividends and/or Restricted Stock maintain eligibility for the Section 162(m) Exception.

ARTICLE 8 PERFORMANCE SHARES AND UNITS

8.1 Grant of Performance Shares and Performance Units. The Committee may grant Performance Shares and Performance Units to Participants in such amounts and upon such terms, and at any time and from time to time, as the Committee shall determine.

8.2 Agreement. The Performance Share or Performance Unit Agreement shall set forth the terms of the Award, as determined by the Committee, including, without limitation, the number of Performance Shares or Performance Units granted; the purchase price, if any, to be paid for such Performance Shares or Performance Units, which may be equal to or less than Fair Market Value of a share and may be zero, subject to such minimum consideration as may be required by applicable law; the performance objectives applicable to the Performance Shares or Performance Units; and any additional restrictions applicable to the Performance Shares or Performance Units such as continued service. Unless provided otherwise at the time of grant, each Performance Share or Performance Unit shall have a Performance Period of at least one year except that, if any Award is made at the time of the Participant's commencement of employment with the Employer or on the occasion of a promotion, then the Performance Period may be less than one year; provided further, that any Qualified Performance-Based Award shall comply with the timing requirements of Code section 162(m). The Committee shall have sole discretion to determine and specify in each Performance Shares or Performance Units Agreement whether the Award will be settled in the form of all cash, all shares of Common Stock, or any combination thereof. Unless and to the extent the Committee specifies otherwise, such settlement will be in the form of shares of Common Stock. Any such shares may be granted subject to any restrictions deemed appropriate by the Committee.

8.3 Value of Performance Shares and Performance Units. Each Performance Unit shall have an initial value that is established by the Committee at the time of grant. Each Performance Share shall have an initial value equal to the Fair Market Value of a share of Common Stock on the date of grant. In addition to any non-performance terms applicable

to the Award, the Committee shall set performance objectives in its discretion which, depending on the extent to which they are met, will determine the number and/or value of Performance Shares, Performance Units or both, as applicable, that will be paid out to the Participant. For purposes of this

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Article 8, the time period during which the performance objectives must be met shall be called a Performance Period. For General Awards, the Committee may, but is not obligated to, set such performance objectives by reference to the performance measures set forth in Article 11.

8.4 Earning of Performance Shares and Performance Units. Subject to the terms of this Plan, after the applicable Performance Period has ended, the holder of the Performance Shares or Performance Units shall be entitled to receive a payout of the number and value of Performance Shares or Performance Units, as applicable, earned by the Participant over the Performance Period, if any, to be determined as a function of the extent to which the corresponding performance objectives have been achieved and any applicable non-performance terms have been met.

8.5 Dividends and Other Distributions. A Participant receiving Performance Shares or Performance Units shall not possess voting rights. A Participant receiving Performance Shares or Performance Units or any other Award that is subject to performance conditions shall accrue dividend equivalents on such Award only to the extent provided in the Agreement relating to the Award; provided, however, that rights to dividend equivalents shall only be allowed to the extent they comply with, or are exempt from, Code section 409A. Any rights to dividends or dividend equivalents on Performance Shares or Performance Units or any other Award subject to performance conditions shall be subject to the same restrictions on vesting and payment as the underlying Award. In addition, with respect to Covered Employees, the Committee may apply any restrictions it deems appropriate to the payment of dividends declared with respect to Performance Shares and Performance Units such that the dividends and/or Performance Shares or Performance Units maintain eligibility for the Section 162(m) Exception.

ARTICLE 9 OTHER AWARDS

The Committee shall have the authority to specify the terms and provisions of other forms of equity-based or equity-related awards not described in Articles 5 through 8 or Article 10 of this Plan that the Committee determines to be consistent with the purpose of the Plan and the interests of the Company (Other Awards). Other Awards may include awards of, or the right to acquire, shares of Common Stock that are not subject to forfeiture or other restrictions, which may be awarded in payment of Non-Employee Director fees, in lieu of cash compensation, in exchange for cancellation of a compensation right, as a bonus, or upon the attainment of a performance goal, or otherwise. Other Awards may also provide for cash payments based in whole or in part on the value or future value of shares of Common Stock, for the acquisition or future acquisition of shares of Common Stock, or any combination of the foregoing. Notwithstanding the foregoing, where the value of an Other Award is based on the difference in the value of a share of Common Stock at different points in time, the grant or exercise price shall not be less than 100% of the Fair Market Value of a share of Common Stock on the date of grant unless the Other Award is granted in replacement for an award previously granted by an entity that is assumed by the Company in a business combination, provided that the Committee determines that the Other Award preserves the economic benefit of the replaced award and is either exempt from or in compliance with the requirements of Code section 409A.

ARTICLE 10 ANNUAL INCENTIVE AWARDS

The Committee may grant Annual Incentive Awards to Participants in such amounts and upon such terms as the Committee shall determine. Annual Incentive Awards may be Qualified Performance-Based Awards or General Awards, with Qualified Performance-Based Awards being granted and administered in accordance with the requirements of Article 11 to permit the Annual Incentive Award to satisfy the Section 162(m) Exception. The Committee may specify the terms and conditions of Annual Incentive Awards in individual Agreements or through the timely adoption of plan rules or other Annual Incentive Award plan documentation. Unless provided otherwise at the time of grant, Annual Incentive Awards shall have a Performance Period of one fiscal year except that, if any Annual Incentive Award is made at the time of the Participant's commencement of

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employment with the Employer or on the occasion of a promotion, then the Performance Period may be less than one fiscal year; provided further, that any Qualified Performance-Based Award shall comply with the timing requirements of Code section 162(m). Unless provided otherwise at the time of grant, Annual Incentive Awards (i) shall be payable in cash, and (ii) are intended to be exempt from Code section 409A as short-term deferrals, and, thus, will be payable no later than 2 ½ months after the end of the Company's fiscal year to which the Award relates.

ARTICLE 11 PERFORMANCE MEASURES

11.1 *In General.* The Committee may, in its discretion, include performance objectives in any Award. If the Committee intends to grant a Qualified Performance-Based Award, the Committee shall designate the Award as such in writing at the time the Award is granted. Any such designation is irrevocable. To the extent the Committee does not designate an Award as a Qualified Performance-Based Award at the time the Award is granted, it shall be a General Award.

11.2 *Qualified Performance-Based Awards.* In the case of a Qualified Performance-Based Award, the Committee shall establish at least one performance objective that is intended to permit the Award to satisfy the Section 162(m) Exception with respect to the Award and shall determine the maximum amount payable under the Qualified Performance-Based Award for attainment of the performance objective. The Committee may also establish lower amounts payable for lower levels of achievement with respect to the performance objective and may also establish one or more threshold levels of achievement with respect to the performance objective in order for any amount to be paid pursuant to the Qualified Performance-Based Award. If none of the threshold levels of achievement with respect to the performance objective intended to permit the Award to satisfy the Section 162(m) Exception are attained, no amount may be paid pursuant to the Qualified Performance-Based Award. The Committee shall establish in writing the performance objective intended to permit the Award to satisfy the Section 162(m) Exception within the first 90 days of the Performance Period and at a time when the outcome of the performance objective is substantially uncertain. Notwithstanding the 90-day deadline specified in the prior sentence, in the event that a Performance Period (or a Participant's service during a Performance Period) is expected to be less than 12 months, the Committee shall establish in writing the performance objective intended to permit the Award to satisfy the Section 162(m) Exception on or before the date when 25% of the Performance Period (or the Participant's service during the Performance Period), as each is scheduled in good faith at the time the objective is established, has elapsed. In addition to specifying the performance objective intended to permit the Award to satisfy the Section 162(m) Exception, the Committee may specify one or more additional performance objectives, or such other conditions and criteria as it chooses, and may specify that it can use its negative discretion to decrease the amount that would otherwise be payable under an Award based on the attainment or failure to attain such other conditions and criteria.

11.3 *Performance Measures for Qualified Performance-Based Awards.* In the case of a Qualified Performance-Based Award, the performance measures intended to permit the Award to satisfy the Section 162(m) Exception shall be stated as levels of, or growth or changes in, or other objective specification of performance with respect to one or more of the following performance criteria:

earnings, earnings before income taxes; earnings before interest and taxes (EBIT); earnings before interest, taxes, depreciation and amortization (EBITDA); earnings before interest, taxes, depreciation, amortization and rent (EBITDAR); gross margin; operating margin; profit margin; market value added; market share; revenue; revenue growth; return measures (including but not limited to return on equity, return on shareholders' equity, return on investment, return on assets, return on net assets, return on capital, return on sales, and return on invested capital); total shareholder return (either in absolute terms or relative to that of a peer group determined by the Committee); profit; economic profit; capitalized economic profit; operating profit; after-tax profit; net operating profit after tax (NOPAT); pre-tax profit; cash; cash flow measures (including but not limited to operating cash flow; free cash flow;

cash flow return; cash flow per share; and free cash flow per share); earnings per share (EPS); consolidated pre-tax earnings; net earnings; operating

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earnings; segment income; economic value added; net income; net income from continuing operations available to common shareholders excluding special items; operating income; adjusted operating income; assets; sales; net sales; sales volume; sales growth; net sales growth; comparable store sales; sales per square foot; inventory turnover; inventory turnover ratio; productivity ratios; number of active stores/sites (including but not limited to Company-owned stores, franchised stores, and/or retail or merchant stores at which the Company has entered into lease-to-own arrangements during a specified time period); number of customers; invoice volume; debt/capital ratio; return on total capital; cost; unit cost; cost control; expense targets or ratios, charge-off levels; operating efficiency; operating expenses; customer satisfaction; improvement in or attainment of expense levels; working capital; working capital targets; improvement in or attainment of working capital levels; debt; debt to equity ratio; debt reduction; capital targets; capital expenditures; price/earnings growth ratio; acquisitions, dispositions, projects or other specific events, transactions or strategic milestones; the Company's common stock price (and stock price appreciation, either in absolute terms or in relationship to the appreciation among members of a peer group determined by the Committee); and book value per share.

All criteria may be measured on a Generally Accepted Accounting Principles (GAAP) basis, adjusted GAAP basis, or non-GAAP basis.

11.4 General Awards. If the Committee assigns a Participant a General Award, the Committee may provide for a threshold level of performance below which no amount of compensation will be paid, and it may provide for the payment of differing amounts of compensation for different levels of performance.

11.5 Performance Measures for General Awards and Negative Discretion. In the case of a General Award, and when selecting targets to guide the exercise of negative discretion with respect to a Qualified Performance-Based Award, the Committee may establish one or more performance objectives that is based on categories of performance that are different than those set forth in Section 11.3.

11.6 Definitions of Performance Objectives. If the Committee makes an Award subject to a particular performance objective, the Committee shall adopt or confirm a written definition of that performance objective at the time the performance objective is established, provided that the Committee retains the discretion to forego such written definition in connection with a General Award. The performance objective for an Award may be described in terms of Company-wide objectives or objectives that are related to a specific division, subsidiary, Employer, department, region, or function in which the participant is employed or as some combination of these (as alternatives or otherwise). A performance objective may be measured on an absolute basis or relative to a pre-established target, results for a previous year, the performance of other corporations, or a stock market or other index. If the Committee specifies more than one individual performance objective for a particular Award, the Committee shall also specify, in writing, whether one, all or some other number of such objectives must be attained.

11.7 Determinations of Performance. For each Award that has been made subject to a performance objective, within 90 days following the end of each Performance Period (or such shorter period necessary to preserve the Employer's tax deduction), the Committee shall determine whether the performance objective for such Performance Period has been satisfied. With respect to the performance objective related to a Qualified Performance-Based Award, the Award may not be paid out unless and until the Committee has made a final written certification that the performance objective intended to permit such Award to satisfy the Section 162(m) Exception has, in fact, been satisfied. This may be accomplished through approved minutes of the Committee meeting (or by some other form of written certification). When applicable, prior to paying out an Award, the Committee shall also determine whether any performance objective or other conditions or criteria specified to guide the exercise of its negative discretion were satisfied, and thereby make a final determination with respect to the Award. If a performance objective applicable to a General Award for a Performance Period is not achieved, the Committee in its sole discretion may pay all or a portion of that

Award based on such criteria as the Committee deems appropriate, including without limitation individual performance, Company-wide performance or the performance of the specific division, subsidiary, Employer, department, region, or function employing the Participant.

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11.8 *Adjustments and Exclusions.* In determining whether any performance objective has been satisfied, the Committee may exclude the effect of any or all extraordinary items and/or other items that are unusual or non-recurring, including but not limited to (i) charges, costs, benefits, gains or income associated with reorganizations or restructurings of the Employer, discontinued operations, goodwill, other intangible assets, long-lived assets (non-cash), real estate strategy (e.g., costs related to lease terminations or facility closure obligations), litigation or the resolution of litigation (e.g., attorneys' fees, settlements or judgments), or currency or commodity fluctuations; and (ii) the effects of changes in applicable laws, regulations or accounting principles. For purposes of determining whether any performance objective has been satisfied with respect to a Qualified Performance-Based Award unless specifically provided otherwise in the Award Agreement (or, with respect to an Annual Incentive Award, in the plan rules or other action of the Committee setting forth the terms of the Award), the Committee shall exclude the effects of the extraordinary, unusual and/or non-recurring items identified above, if such exclusion has the effect of increasing performance and if such items were not anticipated and factored into the performance measures when such measures were established by the Committee; provided, however, the Committee may then exercise negative discretion to reduce the Award as it determines appropriate (including to ignore some or all of the increase in the Award resulting from such adjustments). In addition, the Committee may adjust any performance objective for a Performance Period as it deems equitable to recognize unusual or non-recurring events affecting the Employer, changes in tax laws or regulations or accounting procedures, mergers, acquisitions and divestitures, or any other factors as the Committee may determine (including adjustments that would result in the Company's payment of non-deductible compensation under a General Award). Except as expressly provided above, in the case of a Qualified-Performance-Based Award, such exclusions and adjustments may only apply to the extent the Committee specifies in writing (not later than the time performance objectives are required to be established) which exclusions and adjustments the Committee will apply to determine whether a performance objective has been satisfied, as well as an objective manner for applying them, or to the extent that the Committee determines (if such determination is memorialized in writing) that they may apply without adversely affecting the Award's status as a Qualified Performance-Based Award. To the extent that a performance objective is based on the price of the Company's common stock, then in the event of any stock dividend, stock split, combination of shares, recapitalization or other change in the capital structure of the Company, any merger, consolidation, spin-off, reorganization, partial or complete liquidation or other distribution of assets (other than a normal cash dividend), issuance of rights or warrants to purchase securities or any other corporate transaction having an effect similar to any of the foregoing, the Committee shall make or provide for such adjustments in such performance objective as the Committee in its sole discretion may in good faith determine to be equitably required in order to prevent dilution or enlargement of the rights of Participants.

11.9 *Increases.* The Committee may not increase the amount payable under a Qualified Performance-Based Award, except as a result of an adjustment or exclusion permitted by Section 11.8. The Committee may increase the amount payable under a General Award based on such factors as it determines in its discretion.

11.10 *Changes.* If applicable tax and/or securities laws change to permit Committee discretion to alter the governing performance measures without obtaining shareholder approval of such changes, the Committee shall have sole discretion to make such changes without obtaining shareholder approval. In addition, in the event that the Committee determines that it is advisable to grant Awards (including Awards to Covered Employees) that do not qualify for the Section 162(m) Exception, the Committee may make such grants without satisfying the requirements of the Section 162(m) Exception.

ARTICLE 12 CHANGE IN CONTROL

Unless provided otherwise in an Award Agreement, upon a Change in Control of the Company, each outstanding Option, SAR, Restricted Stock and RSU shall vest as of or immediately prior to the Change in Control if such Award is not assumed or continued or replaced with an Award that constitutes a Replacement Award. Replacement Award

means an award (A) of the same type (e.g., option, RSU, etc.) as the Award, (B) that has a value at least equal to the value of the Award, (C) that relates to publicly traded equity securities of

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the Company or its successor in the Change in Control or another entity that is affiliated with the Company or its successor following the Change in Control or is payable solely in cash, and (D) the other terms and conditions of which are not less favorable to the Participant than the terms and conditions of the Award (including the provisions that would apply in the event of a subsequent Change in Control). A Replacement Award may be granted only to the extent it does not result in the Award or Replacement Award failing to comply with or be exempt from Section 409A of the Code. Without limiting the generality of the foregoing, the Replacement Award may take the form of a continuation of the Award if the requirements of the two preceding sentences are satisfied.

Unless provided otherwise in an Award Agreement, if the Participant receives a Replacement Award in connection with a Change in Control, and the Participant's employment is terminated without Cause within two years following the consummation of a Change in Control, outstanding Options, SARs, Restricted Stock and RSUs held by such Participant shall vest on the Participant's termination date.

With respect to Awards that are subject to one or more performance objectives, the Committee may, in its sole discretion, provide that any such full or prorated Award will be paid under the provisions of this Article 12 prior to when any or all such performance objectives are certified (or without regard to whether they are certified) or may make necessary and appropriate adjustments in the performance objectives.

ARTICLE 13 BENEFICIARY DESIGNATION

To the extent permitted by the Committee, each Participant may, from time to time, name any beneficiary or beneficiaries (who may be named contingently or successively) to whom any vested but unpaid Award is to be paid in case of the Participant's death. Each such designation shall revoke all prior designations by the same Participant, shall be in a form prescribed by the Company, and will be effective only when filed by the Participant in writing (including electronically if permitted by the Company) with the Company or its designee during the Participant's lifetime. In the absence of any such designation, benefits remaining unpaid at the Participant's death shall be paid to the Participant's spouse, and if the Participant has no surviving spouse, to the Participant's estate.

ARTICLE 14 DEFERRALS

The Committee may permit a Participant to defer such Participant's receipt of the payment of cash or the delivery of shares that would otherwise be due to such Participant by virtue of the lapse or waiver of restrictions with respect to RSUs and Other Awards, or the satisfaction of any requirements or objectives with respect to Performance Shares and Performance Units. If any such deferral election is permitted or required, the Committee shall, in its sole discretion, establish rules and procedures for such payment deferrals, which rules and procedures shall comply with Code section 409A. The deferral of Option and SAR gains is prohibited.

ARTICLE 15 WITHHOLDING TAXES

15.1 *Tax Withholding.* The Company shall have the power and the right to deduct or withhold, or require a Participant to remit to the Company, an amount sufficient to satisfy Federal, state, and local taxes, domestic or foreign, required by law or regulation to be withheld with respect to any taxable event arising as a result of or in connection with this Plan or any Award.

15.2 *Share Withholding.* Except as otherwise determined by the Committee or provided in the Agreement corresponding to an Award:

(a) With respect to withholding required upon the exercise of Options or SARs, upon the lapse of restrictions on Restricted Stock, the settlement of Restricted Stock Units or Other Awards, upon the achievement of performance objectives related to Annual Incentive Awards, Performance Shares or

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Performance Units, or upon any other taxable event arising as a result of or in connection with an Award granted hereunder that is settled in shares of Common Stock, unless other arrangements are made with the consent of the Committee, Participants shall satisfy the withholding requirement by having the Company withhold shares of Common Stock having a Fair Market Value on the date the tax is to be determined equal to not more than the amount necessary to satisfy the Company's withholding obligations at the minimum statutory withholding rates (or at any greater rate as may be permitted under accounting standards without resulting in adverse accounting treatment, as determined by the Committee). All such withholding arrangements shall be subject to any restrictions or limitations that the Committee, in its sole discretion, deems appropriate.

(b) A Participant may elect to deliver shares of Common Stock to satisfy, in whole or in part, the withholding requirement. Such an election must be made on or before the date the amount of tax to be withheld is determined. Once made, the election shall be irrevocable. The Fair Market Value of the shares to be delivered will be determined as of the date the amount of tax to be withheld is determined. Such delivery must be made subject to the conditions and pursuant to the procedures established by the Committee with respect to the delivery of shares of Common Stock in payment of the corresponding Option Exercise Price.

(c) A Participant who is subject to the Company's securities Insider Trading Policy relative to disclosure and trading on inside information, at the time the tax withholding requirement arises with respect to his or her Restricted Stock or, to the extent settled in shares of Common Stock, his or her Restricted Stock Units, Performance Shares, Performance Units, Other Awards, Options or SARs, may elect to satisfy such withholding requirement by delivering payment of the tax required to be withheld in cash or by check on the date on which the amount of tax to be withheld is determined. Once made, the election shall be irrevocable.

ARTICLE 16 AMENDMENT AND TERMINATION

16.1 *Amendment or Termination of Plan.* The Board or the Committee may at any time terminate and from time to time amend the Plan in whole or in part, but no such action shall materially adversely affect any rights or obligations with respect to any Awards previously granted under the Plan, unless such action is required by applicable law or any listing standards applicable to the Common Stock or the affected Participants consent in writing. To the extent required by Code section 162(m) or Code section 422, other applicable law, and/or any such listing standards, no amendment shall be effective unless approved by the shareholders of the Company.

16.2 *Amendment of Agreement.* The Committee may, at any time, amend outstanding Agreements in a manner not inconsistent with the terms of the Plan; provided, however, except as expressly permitted or provided for in the Plan or in the Agreement, if such amendment is materially adverse to the Participant, as determined by the Committee, the amendment shall not be effective unless and until the Participant consents, in writing, to such amendment. To the extent not inconsistent with the terms of the Plan, the Committee may, at any time, amend an outstanding Agreement in a manner that is not unfavorable to the Participant (as determined by the Committee) without the consent of such Participant. Except for adjustments as provided in Sections 4.3 or in connection with a Change in Control, the terms of outstanding Awards may not be amended to reduce the exercise price of outstanding Awards or cancel outstanding Options or SARs with per share exercise prices that are more than the Fair Market Value at the time of such cancellation in exchange for cash, other awards, or Options or SARs with an exercise price that is less than the exercise price of the original Options or SARs without shareholder approval.

16.3 *Clawback.* All Awards under the Plan (and payments and shares in settlement of Awards) shall be subject to clawback by the Company to the extent provided in any policy adopted by the Board including any policy adopted to comply with the requirements of Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

16.4 *Cancellation of Awards for Detrimental Activity.* The Committee may provide in the applicable Agreement or a separate policy that if a Participant engages in detrimental activity, as defined in such Agreement or separate policy, the Committee may, notwithstanding any other provision in this Plan to the contrary, cancel,

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rescind, suspend, withhold or otherwise restrict or limit any unexpired, unexercised, unpaid or deferred Award as of the first date the Participant engages in the detrimental activity, unless sooner terminated by operation of another term of this Plan or any other agreement. Without limiting the generality of the foregoing, the Agreement or separate policy may also provide that if the Participant exercises an Option or SAR, receives an RSU, Performance Share, Performance Unit, Annual Incentive Award or Other Award payout, or receives or vests in shares of Common Stock under an Award at any time during the time specified in such Agreement or separate policy, the Participant shall be required to pay to the Company the excess of the then fair market value of the shares that were received with respect to the Award (or if the Participant previously disposed of such shares, the fair market value of such shares at the time of the disposition) over the total price paid by the Participant for such shares.

16.5 Assumption or Cancellation of Awards Upon a Corporate Transaction

(a) In the event of a sale of all or substantially all of the assets or stock of the Company, a spinoff, the merger of the Company with or into another corporation such that shareholders of the Company immediately prior to the merger exchange their shares of stock in the Company for cash and/or shares of another entity or any other corporate transaction to which the Committee deems this provision applicable (any such event is referred to as a Corporate Transaction), the Committee may, in its discretion, cause each Award to be assumed or for an equivalent Award to be substituted by the successor or spun-off corporation or a parent or subsidiary of such successor corporation and adjusted as appropriate).

(b) In addition or in the alternative, the Committee, in its discretion, may cancel all or certain types of outstanding Awards at or immediately prior to the time of the Corporate Transaction provided that the Committee either (i) provides that the Participant is entitled to a payment (in cash or shares) equal to the value of the Award, as determined below and to the extent there is any such value, or (ii) at least 15 days prior to the Corporate Transaction (or, if not feasible to provide 15 days notice, within a reasonable period prior to the Corporate Transaction), notifies the Participant that, subject to rescission if the Corporate Transaction is not successfully completed within a certain period, the Award will be terminated and provides the Participant the right to exercise the Option or other Award as to all shares, including shares that would not otherwise be exercisable (or with respect to Restricted Stock, RSUs, Performance Shares, Performance Units, or Other Awards, provides that all restrictions shall lapse) prior to the Corporate Transaction.

(c) For purposes of this provision, the value of the Award shall be measured as of the date of the Corporate Transaction and shall equal the value of the cash, shares or other property that would be payable to the Participant upon exercise or vesting of the Award, as applicable, less the amount of any payment required to be tendered by the Participant upon such exercise. The Committee may adopt such valuation methodologies for outstanding Awards as it deems reasonable in the event of a cash settlement and, in the case of Options, SARs or similar rights, but without limitation on other methodologies, may base such settlement solely upon the excess (if any) of the per share amount payable upon or in respect of such event over the exercise price of such Option or SAR and may cancel each Option or SAR with an exercise price greater than the per share amount payable upon or in respect of such event without any payment to the person holding such Option or SAR. For example, under this provision, in connection with a Corporate Transaction, the Committee can cancel all outstanding Options under the Plan in consideration for payment to the holders thereof of an amount equal to the portion of the consideration that would have been payable to such holders pursuant to the Corporate Transaction if their Options had been fully exercised immediately prior to such Corporate Transaction, less the aggregate Option Exercise Price that would have been payable therefor, or if the amount that would have been payable to the Option holders pursuant to such Corporate Transaction if their Options had been fully exercised immediately prior thereto would be less than the aggregate Option Exercise Price that would have been payable therefor, the Committee can cancel any or all such Options for no consideration or payment of any kind. Payment of any amount payable pursuant to this cancellation provision may be made in cash or, in the event that the

consideration to be received in such transaction includes securities or other property, in cash and/or securities or other property in the Committee's discretion.

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(d) Any actions taken under this Section 16.4 shall be valid with respect to a 409A Award only to the extent that such action complies with Code section 409A.

ARTICLE 17 MISCELLANEOUS PROVISIONS

17.1 Restrictions on Shares. If the Committee determines that the listing, registration or qualification upon any securities exchange or under any law of shares subject to any Award is necessary or desirable as a condition of, or in connection with, the granting of same or the issue or purchase of Shares thereunder, no such Award may be exercised in whole or in part (as applicable), no such Award may be paid out (as applicable) and no shares may be issued pursuant to such Award (as applicable) unless such listing, registration or qualification is effected free of any conditions not acceptable to the Committee. All certificates for shares of Common Stock delivered under the Plan shall be subject to such stop-transfer orders and other restrictions as the Committee may deem advisable under the rules, regulations, and other requirements of the Securities and Exchange Commission, any listing standards applicable to the Common Stock and any applicable federal or state laws, and the Committee may cause a legend or legends to be placed on any such certificates to make appropriate reference to such restrictions. In making such determination, the Committee may rely upon an opinion of counsel for the Company.

Notwithstanding any other provision of the Plan, the Company shall have no liability to deliver any shares under the Plan or make any other distribution of the benefits under the Plan unless such delivery or distribution would comply with all applicable state, federal and foreign laws (including, without limitation and if applicable, the requirements of the Securities Act of 1933), and any applicable requirements of any securities exchange or similar entity.

17.2 Rights of a Shareholder. Except as provided otherwise in the Plan or in an Agreement, no Participant awarded an Option, SAR, RSU, Performance Share, Performance Unit or Other Award shall have any right as a shareholder with respect to any shares covered by such Award prior to the date of issuance to him or her or his or her delegate of a certificate or certificates for such shares or the date the Participant's name is registered on the Company's books as the shareholder of record with respect to such shares.

17.3 Transferability. No ISO granted under the Plan may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than upon the Participant's death, to a beneficiary in accordance with Article 13 or by will or the laws of descent and distribution. If permitted by the Committee, a Participant may transfer NQSOs to a Permitted Transferee in accordance with procedures approved by the Committee. Except for a permitted transfer of NQSOs by a Participant to a Permitted Transferee, unless the Committee determines otherwise consistent with securities and other applicable laws, rules and regulations, (i) no Award granted under the Plan shall be sold, transferred, pledged, assigned or otherwise alienated or hypothecated by a Participant other than upon the Participant's death, to a beneficiary in accordance with Article 13 or by will or the laws of descent and distribution, and (ii) each Option and SAR outstanding to a Participant may be exercised during the Participant's lifetime only by the Participant or his or her guardian or legal representative (provided that Incentive Stock Options may be exercised by such guardian or legal representative only if permitted by the Code and any regulations promulgated thereunder). In the event of a transfer to a Permitted Transferee as permitted under this Section 17.3 or by the Committee, appropriate evidence of any transfer to the Permitted Transferee shall be delivered to the Company at its principal executive office. If all or part of an Award is transferred to a Permitted Transferee, the Permitted Transferee's rights thereunder shall be subject to the same restrictions and limitations with respect to the Award as the Participant. For the avoidance of doubt, any permitted transfer of an Award will be without payment of consideration by the Permitted Transferee.

17.4 No Fractional Shares. Unless provided otherwise in the Agreement applicable to an Award, no fractional shares of Common Stock shall be issued or delivered pursuant to the Plan or any Award, and any fractional share otherwise payable pursuant to an Award shall be forfeited unless the Agreement provides for payment of cash for such fractional

share.

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17.5 No Implied Rights. Nothing in the Plan or any Agreement shall confer upon any Participant any right to continue in the employ or service of the Employer, or to serve as a Non-Employee Director thereof, or interfere in any way with the right of the Employer to terminate the Participant's employment or other service relationship at any time and for any reason. Unless otherwise determined by the Committee, no Award granted under the Plan shall be deemed salary or compensation for the purpose of computing benefits under any employee benefit plan, severance program, or other arrangement of the Employer for the benefit of its employees. No Participant shall have any claim to an Award until it is actually granted under the Plan. An Award of any type made in any one year to an eligible Participant shall neither guarantee nor preclude a further grant of that or any other type of Award to such Participant in that year or any subsequent year. To the extent that any person acquires a right to receive payments from the Company under the Plan, such right shall, except as otherwise provided by the Committee, be no greater than the right of an unsecured general creditor of the Company.

17.6 Transfer of Employee. The transfer of an Employee from the Company to a Subsidiary, from a Subsidiary to the Company, or from one Subsidiary to another shall not be considered a termination of employment; nor shall it be considered a termination of employment if an Employee is placed on military, disability or sick leave or such other leave of absence which is considered by the Committee as continuing intact the employment relationship. If an Employee's employment or other service relationship is with a Subsidiary and that entity ceases to be a Subsidiary of the Company, a termination of employment shall be deemed to have occurred when the entity ceases to be a Subsidiary unless the Employee transfers his or her employment or other service relationship to the Company or its remaining Subsidiaries.

17.7 Expenses of the Plan. The expenses of the Plan shall be borne by the Company. The Company shall not be required to establish any special or separate fund or make any other segregation of assets to assume the payment of any Award under the Plan.

17.8 Compliance with Laws.

(a) At all times when the Committee determines that compliance with Code section 162(m) is required or desirable, all Awards to Covered Employees shall comply with the requirements of Code section 162(m). In addition, in the event that changes are made to Code section 162(m) to permit greater flexibility with respect to any Awards, the Committee may, subject to the requirements of Article 16, make any adjustments it deems appropriate.

(b) The Plan and the grant of Awards shall be subject to all applicable federal and state laws, rules, and regulations and to such approvals by any United States government or regulatory agency as may be required. It is the intent of the Company that the awards made hereunder comply in all respects with Rule 16b-3 under the Exchange Act and that any ambiguities or inconsistencies in construction of the Plan be interpreted to give effect to such intention. Any provision herein relating to compliance with Rule 16b-3 under the Exchange Act shall not be applicable with respect to participation in the Plan by Participants who are not Insiders.

17.9 Successors. The terms of the Plan and outstanding Awards shall be binding upon the Company and its successors and assigns.

17.10 Tax Elections. Each Participant agrees to give the Committee prompt written notice of any election made by such Participant under Code section 83(b) or any similar provision thereof. Notwithstanding the preceding sentence, the Committee may condition any Award on the Participant's not making an election under Code section 83(b).

17.11 Uncertificated Shares. To the extent that the Plan provides for issuance of certificates to reflect the transfer of shares of Common Stock, the transfer of such shares may be effected on a non-certificated basis, to the extent not

prohibited by applicable law or the rules of any stock exchange on which shares of Common Stock are traded.

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17.12 *Compliance with Code Section 409A.* At all times, this Plan shall be interpreted and operated (i) with respect to 409A Awards in accordance with the requirements of Code section 409A, and (ii) to maintain the exemptions from Code section 409A of Options, SARs and Restricted Stock and any Awards designed to meet the short-term deferral exception under Code section 409A. To the extent there is a conflict between the provisions of the Plan relating to compliance with Code section 409A and the provisions of any Agreement issued under the Plan, the provisions of the Plan control. Moreover, any discretionary authority that the Committee may have pursuant to the Plan shall not be applicable to a 409A Award to the extent such discretionary authority would conflict with Code section 409A. In addition, to the extent required to avoid a violation of the applicable rules under Code section 409A by reason of Code section 409A(a)(2)(B)(i), any payment under an Award shall be delayed until the earliest date of payment that will result in compliance with the rules of Code section 409A(a)(2)(B)(i) (regarding the required six-month delay for distributions to specified employees that are related to a separation from service). To the extent that a 409A Award provides for payment upon the recipient's termination of employment as an Employee or cessation of service as a Non-Employee Director or Non-Employee, the 409A Award shall be deemed to require payment upon the individual's separation from service within the meaning of Code section 409A. To the extent any provision of this Plan or an Agreement would cause a payment of a 409A Award to be made because of the occurrence of a change in control, then such payment shall not be made unless such change in control also constitutes a change in ownership, change in effective control or change in ownership of a substantial portion of the Company's assets within the meaning of Code section 409A. Any payment that would have been made except for the application of the preceding sentence shall be made in accordance with the payment schedule that would have applied in the absence of a change in control. To the extent an Award is a 409A Award and is subject to a substantial risk of forfeiture within the meaning of Code section 409A (or will be granted upon the satisfaction of a condition that constitutes such a substantial risk of forfeiture), any compensation due under the Award (or pursuant to a commitment to grant an Award) shall be paid in full not later than the 60th day following the date on which there is no longer such a substantial risk of forfeiture with respect to the Award (and the Participant shall have no right to designate the year of the payment), unless the Committee shall clearly and expressly provide otherwise at the time of granting the Award. In the event that an Award shall be deemed not to comply with Code section 409A, then neither the Company, the Board, the Committee nor its or their designees or agents, nor any of their affiliates, assigns or successors (each a protected party) shall be liable to any Award recipient or other person for actions, inactions, decisions, indecisions or any other role in relation to the Plan by a protected party.

17.13 Legal Construction.

(a) If any provision of this Plan or an Agreement is or becomes or is deemed invalid, illegal or unenforceable in any jurisdiction, or would disqualify the Plan or any Agreement under any law deemed applicable by the Committee, such provision shall be construed or deemed amended to conform to applicable laws or if it cannot be construed or deemed amended without, in the determination of the Committee, materially altering the intent of the Plan or the Agreement, it shall be stricken and the remainder of the Plan or the Agreement shall remain in full force and effect.

(b) Where the context admits, words in any gender shall include the other gender, words in the singular shall include the plural and words in the plural shall include the singular.

(c) To the extent not preempted by federal law, the Plan and all Agreements hereunder shall be construed in accordance with and governed by the laws of the State of Georgia, without giving effect to any choice of law provisions. Unless otherwise provided in the applicable Agreement, the recipient of an Award is deemed to submit to the exclusive jurisdiction and venue of the Federal and state courts of Georgia to resolve any and all issues that may arise out of or relate to the Plan or such Agreement.

IN WITNESS WHEREOF, this Plan is executed as of the date approved by the Board of Directors of the Company,
the day of , 2015.

AARON S, INC.

By:

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Electronic Voting Instructions

Available 24 hours a day, 7 days a week!

Instead of mailing your proxy, you may choose one of the voting methods outlined below to vote your proxy.

VALIDATION DETAILS ARE LOCATED BELOW IN THE TITLE BAR.

Proxies submitted by the Internet or telephone must be received by 11:59 p.m., Eastern Time, on May 5, 2015.

Vote by Internet

Go to www.investorvote.com/AAN

Or scan the QR code with your smartphone

Follow the steps outlined on the secure website

Vote by telephone

Call toll free 1-800-652-VOTE (8683) within the USA, US territories & Canada on a touch tone telephone

Follow the instructions provided by the recorded message

Using a **black ink** pen, mark your votes with an **X** as shown in this example. Please do not

write outside the designated areas.

q IF YOU HAVE NOT VOTED VIA THE INTERNET OR TELEPHONE, FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE.

q

A Proposals The Board recommends a vote FOR all nominees and FOR Proposals 2, 3 and 4.

on of Directors: For Against Abstain			For Against Abstain			For Against Abstain		
Matthew E. Avril	..	..	02 - Leo Benatar	..	..	03 - Kathy T. Betty	..	..
rian R. Kahn	..	..	05 - H. Eugene Lockhart	..	..	06 - John W. Robinson III	..	..
ay M. Robinson	..	..				

			For Against Abstain			For Against Abstain		
2. Approval of a non-binding resolution to approve the Company's executive compensation.	..	..	3. Ratification of the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm for 2015.	..	..	
4. Adopt and approve the Aaron's, Inc. 2015 Equity and Incentive Plan.	..	..				

B Non-Voting Items

Change of Address Please print new address below.

Meeting Attendance

Mark box to the right if you plan to attend the Annual Meeting.

C Authorized Signatures This section must be completed for your vote to be counted. Date and Sign Below

Signature should agree with the name(s) hereon. Executors, administrators, trustees, guardians and attorneys should so indicate when signing. For joint accounts each owner should sign. The full name of a corporation should be signed by a duly authorized officer.

/dd/yyyy) Please print date below. Signature 1 Please keep signature within the box. Signature 2 Please keep signature within /

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q **IF YOU HAVE NOT VOTED VIA THE INTERNET OR TELEPHONE, FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE.** q

Proxy Aaron s, Inc.

COMMON STOCK

This Proxy is Solicited by the Board of Directors for the Annual Meeting of Shareholders to be Held on May 6, 2015

The undersigned shareholder of Aaron s, Inc. hereby constitutes and appoints John W. Robinson III, Gilbert L. Danielson and Robert W. Kamerschen, or any of them, the true and lawful attorneys and proxies of the undersigned with full power of substitution and appointment, for and in the name, place and stead of the undersigned, to vote all of the undersigned s shares of Common Stock of Aaron s, Inc., at the Annual Meeting of Shareholders to be held in Atlanta, Georgia on Wednesday, the 6th day of May 2015, at 9:00 a.m., local time, and at any and all adjournments or postponements thereof as follows.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR EACH OF THE NOMINEES LISTED ABOVE, FOR APPROVAL OF A NON-BINDING RESOLUTION TO APPROVE THE COMPANY S EXECUTIVE COMPENSATION, FOR RATIFICATION OF THE SELECTION OF ERNST & YOUNG LLP AS THE COMPANY S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR 2015 AND FOR THE ADOPTION AND APPROVAL OF THE AARON S, INC. 2015 EQUITY AND INCENTIVE PLAN, AND UNLESS INSTRUCTIONS TO THE CONTRARY ARE INDICATED IN THE SPACE PROVIDED, THE PROXY WILL BE SO VOTED.

Participants in any retirement plan of Aaron s, Inc. may vote their proportionate share of Company Common Stock held in the plan by signing and returning this card, or by voting electronically or by telephone. By doing so, you are instructing the trustee to vote all of your shares at the meeting, and at any and all adjournments or postponements thereof, as you have indicated with respect to the matters referred to on the reverse side of this proxy. **If this card is signed and returned without voting instructions, you will be deemed to have instructed the plan trustee to vote your shares in accordance with the recommendations of the Company s board of directors listed above.** If this card is not returned (and your shares are not otherwise voted electronically or by telephone) or if this card is returned unsigned, your shares will be voted by the plan trustee in the same proportion as the shares for which voting

instructions are received from other participants in the plan.

The undersigned hereby acknowledges receipt of the Notice of Annual Meeting of Shareholders, dated April 7, 2015, and the Proxy Statement furnished therewith.

It is understood that this proxy confers discretionary authority in respect to matters not known or determined at the time of the mailing of the Notice of the Annual Meeting of Shareholders to the undersigned.

This proxy is revocable at or at any time prior to the Annual Meeting.

(Continued and to be dated and signed on reverse side)