

H&R Block Announces Fiscal 2017 Second Quarter Results

December 7, 2016 4:21 PM ET

KANSAS CITY, MO -- (Marketwired) -- 12/07/16 -- H&R Block, Inc. (NYSE: HRB) today released its financial results for the fiscal 2017 second quarter ended October 31, 2016. The company normally reports a second quarter operating loss due to the seasonality of its tax business. The fiscal second quarter typically represents less than 5% of annual revenues and approximately 15% of annual expenses.

Second Quarter Financial Summary¹

- Total revenues increased \$3 million as a result of favorable foreign exchange rates and the recognition of deferred revenues associated with the Peace of Mind product
- Total operating expenses declined \$23 million due to one-time costs incurred in the prior year related to the divestiture of H&R Block Bank and capital structure transactions, coupled with savings from cost reduction efforts
- Net loss from continuing operations was flat to prior year; loss per share increased \$0.13 due entirely to reduction in share count, which will be accretive on a full year basis, but negatively impacts those quarters with a net loss
- Repurchased approximately 7.6 million shares for an aggregate purchase price of \$168 million during the second quarter, bringing total share repurchases for fiscal 2017 to 9.6 million shares

CEO Perspective

"I'm pleased with our second quarter results, as revenues were up and expenses were down. I'm also extremely excited for the upcoming tax season. We have been hard at work developing and implementing a comprehensive and aggressive plan designed to deliver stronger results in tax season 2017," said Bill Cobb, H&R Block's president and chief executive officer. "Our associates and franchisees are excited about our new promotional offerings, including the previously announced interest-free Refund Advance loan and planned changes to our service delivery models. We are ready for the tax season to begin."

Fiscal 2017 Second Quarter Results From Continuing Operations

| (in millions, except EPS) | <i>Actual</i> | | <i>Adjusted³</i> | |
|---------------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| | <i>Fiscal Year</i> 2017 | <i>Fiscal Year</i> 2016 | <i>Fiscal Year</i> 2017 | <i>Fiscal Year</i> 2016 |
| Revenue | \$ 131 | \$ 128 | \$ 131 | \$ 128 |
| Pretax Loss | \$ (228) | \$ (238) | \$ (229) | \$ (225) |
| Net Loss | \$ (143) | \$ (143) | \$ (144) | \$ (135) |
| Weighted-Avg. Shares - Diluted | 215.5 | 266.3 | 215.5 | 266.3 |
| EPS² | \$ (0.67) | \$ (0.54) | \$ (0.67) | \$ (0.51) |
| EBITDA³ | \$ (160) | \$ (181) | \$ (161) | \$ (169) |

Income Statement

- Total revenues increased \$2.9 million to \$131.3 million, partially as a result of favorable foreign exchange rates and tax preparation revenues in international operations. Additionally, deferred revenue recognition from increased Peace of Mind product sales in prior fiscal years also positively impacted revenues. These increases were partially offset by lower domestic tax preparation revenues as well as the impact of the divestiture of H&R Block Bank.
- Total operating expenses decreased \$22.9 million to \$339.4 million. Contributing to the decline were the prior year one-time costs associated with the divestiture of H&R Block Bank and the subsequent capital structure transactions. Lower compensation expense resulting from the company's cost reduction efforts also positively

impacted expenses. These were partially offset by increased occupancy and amortization expenses related to competitor and franchise acquisitions in the prior year.

- Interest expense increased \$8.4 million to \$22.6 million primarily due to \$1 billion of long-term debt issued in September 2015.
- Pretax loss decreased \$9.3 million to \$228.5 million.
- Loss per share from continuing operations increased \$0.13 to \$0.67, due entirely to the reduction in share count, which will be accretive on a full year basis, but negatively impacts those quarters with a net loss.

CFO Perspective

"Our expense reduction efforts are starting to bear results," said Tony Bowen, H&R Block's chief financial officer. "These reductions will enable us to fund client growth initiatives to deliver a successful fiscal year 2017."

Balance Sheet

- Mortgage loans previously classified as held for investment were reclassified to mortgage loans held for sale as the company intends to liquidate the portfolio during the third fiscal quarter and receive approximately \$190 million in cash proceeds.
- Long-term debt increased due to line of credit borrowings of \$475 million. Although these amounts are intended to cover short-term offseason liquidity needs, they are classified as long-term debt due to the maturity date of the line of credit agreement.
- Stockholders' equity from October 31, 2015 was reduced by share repurchase and subsequent retirement of 25.5 million shares of common stock for approximately \$717 million.
- Details regarding the divestiture of H&R Block Bank and related agreements, capital structure transactions and share repurchase program can be found in previously filed press releases, and Forms 8-K filed with the Securities and Exchange Commission, in September and October of 2015.

Discontinued Operations

The accrual for contingent losses related to representation and warranty claims at Sand Canyon Corporation, a separate legal entity from H&R Block, Inc., remained unchanged at \$26 million.

Share Repurchases and Dividends

During the second quarter of fiscal 2017, the company repurchased and retired approximately 7.6 million shares at an aggregate price of \$168.4 million, or \$22.16 per share. As of October 31, 2016, 211.5 million shares were outstanding.

The company completed these share repurchases under a \$3.5 billion share repurchase program approved by the company's board of directors in August 2015, which runs through June 2019. Under this program, the company has repurchased approximately 66 million shares of its common stock, or 23.9% of outstanding shares, for an aggregate purchase price of approximately \$2.2 billion.

As previously announced, a quarterly cash dividend of 22 cents per share is payable on January 3, 2017 to shareholders of record as of December 5, 2016. H&R Block has paid quarterly dividends consecutively since the company went public in 1962.

Conference Call

Discussion of the fiscal 2017 second quarter results, future outlook and a general business update will occur during the company's previously announced fiscal second quarter earnings conference call for analysts, institutional investors, and shareholders. The call is scheduled for 4:30 p.m. Eastern time on December 7, 2016. To access the call, please dial the number below approximately 10 minutes prior to the scheduled starting time:

U.S./Canada (866) 872-0323 or International (443) 842-7595

Conference ID: 89483597

The call will also be webcast in a listen-only format for the media and public. The link to the webcast can be accessed directly at <http://investors.hrblock.com>.

A replay of the call will be available beginning at 7:30 p.m. Eastern time on December 7, 2016, and continuing until January 7, 2017, by dialing (855) 859-2056 (U.S./Canada) or (404) 537-3406 (International). The conference ID is 89483597. The webcast will be available for replay December 8, 2016 at <http://investors.hrblock.com>.

About H&R Block

H&R Block, Inc. (NYSE: HRB) is a global consumer tax services provider. Tax return preparation services are provided by professional tax preparers in approximately 12,000 company-owned and franchise retail tax offices worldwide, and through H&R Block tax software products for the DIY consumer. H&R Block also offers adjacent Tax Plus products and services. In fiscal 2016, H&R Block had annual revenues of over \$3 billion with 23.2 million tax returns prepared worldwide. For more information, visit the H&R Block Newsroom at <http://newsroom.hrblock.com/>.

About Non-GAAP Financial Information

This press release and the accompanying tables include non-GAAP financial information. For a description of these non-GAAP financial measures, including the reasons management uses each measure, and reconciliations of these non-GAAP financial measures to the most directly comparable financial measures prepared in accordance with generally accepted accounting principles, please see the section of the accompanying tables titled "Non-GAAP Financial Information."

Forward-Looking Statements

This press release contains forward-looking statements within the meaning of the securities laws. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. They often include words or variation of words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates," "projects," "forecasts," "targets," "would," "will," "should," "goal," "could" or "may" or other similar expressions. Forward-looking statements provide management's current expectations or predictions of future conditions, events or results. All statements that address operating performance, events or developments that we expect or anticipate will occur in the future are forward-looking statements. They may include estimates of revenues, income, earnings per share, cost savings, capital expenditures, dividends, share repurchases, 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. All forward-looking statements speak only as of the date they are made and reflect the company's good faith beliefs, assumptions and expectations, but they are not guarantees of future performance or events. Furthermore, the company disclaims any obligation to publicly update or revise any forward-looking statement to reflect changes in underlying assumptions, factors, or expectations, new information, data or methods, future events or other changes, except as required by law. By their nature, forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those suggested by the forward-looking statements. Factors that might cause such differences include, but are not limited to, a variety of economic, competitive and regulatory factors, many of which are beyond the company's control, that are described in our Annual Report on Form 10-K for the fiscal year ended April 30, 2016 in the section entitled "Risk Factors" and additional factors we may describe from time to time in other filings with the Securities and Exchange Commission. You may get such filings for free at our website at <http://investors.hrblock.com>. You should understand that it is not possible to predict or identify all such factors and, consequently, you should not consider any such list to be a complete set of all potential risks or uncertainties.

¹ All amounts in this release are unaudited. Unless otherwise noted, all comparisons refer to the current period compared

to the corresponding prior year period.

² All per share amounts are based on fully diluted shares at the end of the corresponding period.

³ The company reports adjusted financial performance, and other non-GAAP financial measures, which it believes are a better indication of the company's core operations. See "About Non-GAAP Financial Information" below for more information regarding financial measures not prepared in accordance with generally accepted accounting principles (GAAP).

| | | | | (unaudited, in 000s - except per share amounts) | |
|--|-----------|--------------------------------|---------------------|--|---------------------|
| CONSOLIDATED STATEMENTS OF OPERATIONS | | | | | |
| | | Three months ended October 31, | | Six months ended October 31, | |
| | | 2016 | 2015 | 2016 | 2015 |
| REVENUES: | | | | | |
| Service revenues | \$ | 118,940 | \$ 113,420 | \$ 231,324 | \$ 231,854 |
| Royalty, product and other revenues | | 12,392 | 14,995 | 25,193 | 34,279 |
| | | 131,332 | 128,415 | 256,517 | 266,133 |
| OPERATING EXPENSES: | | | | | |
| Cost of revenues: | | | | | |
| Compensation and benefits | | 57,728 | 62,694 | 110,083 | 118,483 |
| Occupancy and equipment | | 99,067 | 95,051 | 193,492 | 184,906 |
| Provision for bad debt | | (131) | 1,182 | 1,286 | 3,187 |
| Depreciation and amortization | | 29,911 | 28,358 | 57,378 | 55,442 |
| Other | | 39,127 | 39,116 | 74,549 | 77,891 |
| | | 225,702 | 226,401 | 436,788 | 439,909 |
| Selling, general and administrative: | | | | | |
| Marketing and advertising | | 12,001 | 12,965 | 19,562 | 21,496 |
| Compensation and benefits | | 58,293 | 61,593 | 115,815 | 116,262 |
| Depreciation and amortization | | 15,839 | 13,991 | 29,654 | 27,001 |
| Other selling, general and administrative | | 27,519 | 47,298 | 47,444 | 69,280 |
| | | 113,652 | 135,847 | 212,475 | 234,039 |
| Total operating expenses | | 339,354 | 362,248 | 649,263 | 673,948 |
| Other income, net | | 2,180 | 10,505 | 5,148 | 10,938 |
| Interest expense on borrowings | | (22,620) | (14,181) | (44,086) | (22,756) |
| Other expenses, net | | (7) | (210) | (334) | (5,195) |
| Loss from continuing operations before income tax benefit | | (228,469) | (237,719) | (432,018) | (424,828) |
| Income tax benefit | | (85,054) | (95,201) | (167,577) | (185,805) |
| Net loss from continuing operations | | (143,415) | (142,518) | (264,441) | (239,023) |
| Net loss from discontinued operations | | (2,805) | (2,489) | (5,452) | (5,643) |
| NET LOSS | \$ | (146,220) | \$ (145,007) | \$ (269,893) | \$ (244,666) |
| BASIC AND DILUTED LOSS | | | | | |
| PER SHARE: | | | | | |
| Continuing operations | \$ | (0.67) | \$ (0.54) | \$ (1.21) | \$ (0.88) |
| Discontinued operations | | (0.01) | (0.01) | (0.03) | (0.02) |

Consolidated \$ (0.68) \$ (0.55) \$ (1.24) \$ (0.90)

**WEIGHTED AVERAGE BASIC AND
DILUTED SHARES**

215,535 266,267 218,009 271,016

CONSOLIDATED BALANCE SHEETS

(unaudited, in 000s - except per share data)

| As of | October 31, 2016 | October 31, 2015 | April 30, 2016 |
|---|-----------------------------|---------------------|---------------------|
| ASSETS | | | |
| Cash and cash equivalents | \$ 232,510 | \$ 360,681 | \$ 896,801 |
| Cash and cash equivalents - restricted | 109,538 | 42,781 | 104,110 |
| Receivables, net | 104,764 | 94,760 | 153,116 |
| Deferred tax assets and income taxes receivable | - | 145,912 | - |
| Prepaid expenses and other current assets | 73,555 | 80,764 | 66,574 |
| Mortgage loans held for sale, net | 183,107 | - | - |
| Total current assets | <u>703,474</u> | <u>724,898</u> | <u>1,220,601</u> |
| Mortgage loans held for investment, net | - | 220,671 | 202,385 |
| Property and equipment, net | 293,060 | 298,602 | 293,565 |
| Intangible assets, net | 433,135 | 466,224 | 433,885 |
| Goodwill | 477,360 | 442,068 | 470,757 |
| Deferred tax assets and income taxes receivable | 81,755 | 11,264 | 120,123 |
| Other noncurrent assets | 93,394 | 114,746 | 105,909 |
| Total assets | <u>\$ 2,082,178</u> | <u>\$ 2,278,473</u> | <u>\$ 2,847,225</u> |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | |
| LIABILITIES: | | | |
| Accounts payable and accrued expenses | \$ 139,808 | \$ 141,070 | \$ 259,586 |
| Accrued salaries, wages and payroll taxes | 40,754 | 37,512 | 161,786 |
| Accrued income taxes and reserves for uncertain tax positions | 68,832 | 67,732 | 373,754 |
| Current portion of long-term debt | 903 | 808 | 826 |
| Deferred revenue and other current liabilities | 184,560 | 319,426 | 243,653 |
| Total current liabilities | <u>434,857</u> | <u>566,548</u> | <u>1,039,605</u> |
| Long-term debt and line of credit borrowings | 1,967,206 | 1,490,514 | 1,491,375 |
| Deferred tax liabilities and reserves for uncertain tax positions | 117,553 | 140,539 | 132,960 |
| Deferred revenue and other noncurrent liabilities | 120,033 | 108,115 | 160,182 |
| Total liabilities | <u>2,639,649</u> | <u>2,305,716</u> | <u>2,824,122</u> |
| COMMITMENTS AND CONTINGENCIES | | | |
| STOCKHOLDERS' EQUITY: | | | |
| Common stock, no par, stated value \$.01 per share | 2,506 | 2,761 | 2,602 |
| Additional paid-in capital | 751,229 | 757,816 | 758,230 |
| Accumulated other comprehensive loss | (17,122) | (16,208) | (11,233) |
| Retained earnings (deficit) | (538,242) | 3,573 | 40,347 |
| Less treasury shares, at cost | (755,842) | (775,185) | (766,843) |
| Total stockholders' equity (deficiency) | <u>(557,471)</u> | <u>(27,243)</u> | <u>23,103</u> |
| Total liabilities and stockholders' equity | <u>\$ 2,082,178</u> | <u>\$ 2,278,473</u> | <u>\$ 2,847,225</u> |

Note: Effective May 1, 2016, we adopted the provisions of Accounting Standards Update No. 2015-3, "Interest - Imputation of Interest," (ASU 2015-3) on a retrospective basis. Accordingly, debt issuance costs related to our Senior Notes are included in long-term debt in the consolidated balance sheets. Amounts for prior periods have been retrospectively adjusted to conform to the current period presentation.

| CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS | | (unaudited, in 000s) | |
|---|------------------|----------------------|--|
| Six months ended October 31, | 2016 | 2015 | |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Net loss | \$ (269,893) | \$ (244,666) | |
| Adjustments to reconcile net loss to net cash used in operating activities: | | | |
| Depreciation and amortization | 87,032 | 82,443 | |
| Provision for bad debt | 1,286 | 3,187 | |
| Deferred taxes | 6,489 | 20,282 | |
| Stock-based compensation | 12,472 | 13,876 | |
| Changes in assets and liabilities, net of acquisitions: | | | |
| Cash and cash equivalents - restricted | (5,421) | 49,113 | |
| Receivables | 48,653 | 67,373 | |
| Prepaid expenses and other current assets | (7,386) | (6,173) | |
| Other noncurrent assets | 7,713 | 7,518 | |
| Accounts payable and accrued expenses | (99,378) | (79,918) | |
| Accrued salaries, wages and payroll taxes | (120,672) | (106,504) | |
| Deferred revenue and other current liabilities | (46,531) | (3,188) | |
| Income tax receivables, accrued income taxes and income tax reserves | (282,234) | (334,245) | |
| Deferred revenue and other noncurrent liabilities | (52,548) | (49,669) | |
| Other, net | (5,379) | (22,142) | |
| Net cash used in operating activities | <u>(725,797)</u> | <u>(602,713)</u> | |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Sales, maturities of and payments received on available-for-sale securities | 144 | 434,261 | |
| Principal payments on mortgage loans, net | 16,706 | 17,006 | |
| Capital expenditures | (44,918) | (38,779) | |
| Payments made for business acquisitions, net of cash acquired | (36,151) | (61,846) | |
| Franchise loans funded | (10,171) | (10,281) | |
| Payments received on franchise loans | 14,263 | 17,473 | |
| Other, net | 4,336 | 7,246 | |
| Net cash provided by (used in) investing activities | <u>(55,791)</u> | <u>365,080</u> | |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | |
| Repayments of line of credit borrowings | (50,000) | - | |
| Proceeds from line of credit borrowings | 525,000 | - | |
| Proceeds from issuance of long-term debt | - | 996,831 | |
| Customer banking deposits, net | - | (326,705) | |
| Transfer of HRB Bank deposits | - | (419,028) | |
| Dividends paid | (95,971) | (110,338) | |
| Repurchase of common stock, including shares surrendered | (215,511) | (1,517,786) | |
| Proceeds from exercise of stock options | 1,630 | 16,875 | |

| | | |
|--|-------------------|--------------------|
| Other, net | <u>(43,734)</u> | <u>(37,820)</u> |
| Net cash provided by (used in) financing activities | <u>121,414</u> | <u>(1,397,971)</u> |
| Effects of exchange rate changes on cash | (4,117) | (10,905) |
| Net decrease in cash and cash equivalents | (664,291) | (1,646,509) |
| Cash and cash equivalents at beginning of the period | <u>896,801</u> | <u>2,007,190</u> |
| Cash and cash equivalents at end of the period | <u>\$ 232,510</u> | <u>\$ 360,681</u> |

SUPPLEMENTARY CASH FLOW DATA:

| | | |
|---|------------|------------|
| Income taxes paid, net of refunds received | \$ 112,339 | \$ 132,096 |
| Interest paid on borrowings | 40,670 | 15,606 |
| Accrued additions to property and equipment | 12,920 | 4,573 |
| Accrued purchase of common stock | 7,143 | - |

FINANCIAL RESULTS

(unaudited, in 000s - except per share amounts)

| | Three months ended October | | Six months ended October 31, | |
|--|----------------------------|----------------|------------------------------|----------------|
| | 31, | | | |
| | 2016 | 2015 | 2016 | 2015 |
| Revenues: | | | | |
| U.S. assisted tax preparation fees | \$ 35,339 | \$ 36,403 | \$ 60,768 | \$ 63,688 |
| U.S. royalties | 6,828 | 6,680 | 13,353 | 13,406 |
| U.S. DIY tax preparation fees | 3,089 | 3,469 | 6,003 | 6,648 |
| International revenues | 43,539 | 40,071 | 82,414 | 80,665 |
| Revenues from Refund Transfers | 757 | 821 | 3,991 | 2,992 |
| Revenues from Emerald Card® | 8,644 | 9,808 | 21,709 | 25,497 |
| Revenues from Peace of Mind® Extended Service Plan | 22,689 | 19,325 | 49,720 | 47,028 |
| Interest and fee income on Emerald Advance | 655 | 417 | 1,459 | 731 |
| Other | 9,792 | 11,421 | 17,100 | 25,478 |
| | <u>131,332</u> | <u>128,415</u> | <u>256,517</u> | <u>266,133</u> |
| Compensation and benefits: | | | | |
| Field wages | 50,096 | 53,525 | 95,139 | 99,463 |
| Other wages | 42,207 | 46,127 | 84,307 | 87,996 |
| Benefits and other compensation | 23,718 | 24,635 | 46,452 | 47,286 |
| | <u>116,021</u> | <u>124,287</u> | <u>225,898</u> | <u>234,745</u> |
| Occupancy and equipment | 99,037 | 94,997 | 193,408 | 184,796 |
| Marketing and advertising | 12,001 | 12,965 | 19,562 | 21,496 |
| Depreciation and amortization | 45,750 | 42,349 | 87,032 | 82,443 |
| Bad debt | (131) | 1,182 | 1,286 | 3,187 |
| Supplies | 4,937 | 4,728 | 7,014 | 7,127 |
| Other | 61,739 | 81,740 | 115,063 | 140,154 |
| Total operating expenses | <u>339,354</u> | <u>362,248</u> | <u>649,263</u> | <u>673,948</u> |
| Other income, net | 2,180 | 10,505 | 5,148 | 10,938 |
| Interest expense on borrowings | (22,620) | (14,181) | (44,086) | (22,756) |

| | | | | |
|---|---------------------|---------------------|---------------------|---------------------|
| Other expenses, net | (7) | (210) | (334) | (5,195) |
| Pretax loss | (228,469) | (237,719) | (432,018) | (424,828) |
| Income tax benefit | (85,054) | (95,201) | (167,577) | (185,805) |
| Net loss from continuing operations | (143,415) | (142,518) | (264,441) | (239,023) |
| Net loss from discontinued operations | (2,805) | (2,489) | (5,452) | (5,643) |
| Net loss | <u>\$ (146,220)</u> | <u>\$ (145,007)</u> | <u>\$ (269,893)</u> | <u>\$ (244,666)</u> |
| Basic and diluted loss per share: | | | | |
| Continuing operations | \$ (0.67) | \$ (0.54) | \$ (1.21) | \$ (0.88) |
| Discontinued operations | (0.01) | (0.01) | (0.03) | (0.02) |
| Consolidated | <u>\$ (0.68)</u> | <u>\$ (0.55)</u> | <u>\$ (1.24)</u> | <u>\$ (0.90)</u> |
| Weighted average basic and diluted shares | 215,535 | 266,267 | 218,009 | 271,016 |
| EBITDA from continuing operations ⁽¹⁾ | \$ (160,099) | \$ (181,145) | \$ (300,900) | \$ (319,449) |
| EBITDA from continuing operations - adjusted ⁽¹⁾ | (160,676) | (168,760) | (300,665) | (306,106) |

⁽¹⁾ See "Non-GAAP Financial Information" for a reconciliation of non-GAAP measures.

NON-GAAP FINANCIAL MEASURES

| EBITDA | Three months ended October 31, | | Six months ended October 31, | |
|--|--------------------------------|---------------------|------------------------------|---------------------|
| | 2016 | 2015 | 2016 | 2015 |
| Net loss - as reported | \$ (146,220) | \$ (145,007) | \$ (269,893) | \$ (244,666) |
| Add back : | | | | |
| Discontinued operations, net | 2,805 | 2,489 | 5,452 | 5,643 |
| Income taxes of continuing operations | (85,054) | (95,201) | (167,577) | (185,805) |
| Interest expense of continuing operations | 22,620 | 14,225 | 44,086 | 22,936 |
| Depreciation and amortization of continuing operations | 45,750 | 42,349 | 87,032 | 82,443 |
| | <u>(13,879)</u> | <u>(36,138)</u> | <u>(31,007)</u> | <u>(74,783)</u> |
| EBITDA from continuing operations | <u>\$ (160,099)</u> | <u>\$ (181,145)</u> | <u>\$ (300,900)</u> | <u>\$ (319,449)</u> |
| Three months ended October 31, | 2016 | | | |
| | Pretax loss | Net loss | EBITDA | |
| From continuing operations | \$ (228,469) | \$ (143,415) | \$ (160,099) | |
| Adjustments (pretax): | | | | |
| Loss contingencies - litigation | (577) | (577) | (577) | |

| | | | |
|--|---------------------|---------------------|---------------------|
| Tax effect of adjustments | - | <u>217</u> | - |
| | <u>(577)</u> | <u>(360)</u> | <u>(577)</u> |
| As adjusted - from continuing operations | <u>\$ (229,046)</u> | <u>\$ (143,775)</u> | <u>\$ (160,676)</u> |
| EPS - as reported | | \$ (0.67) | |
| Impact of adjustments | | <u>-</u> | |
| EPS - adjusted | | <u>\$ (0.67)</u> | |

| Three months ended October 31, | 2015 | | |
|---|---------------------|---------------------|---------------------|
| | Pretax loss | Net loss | EBITDA |
| From continuing operations | \$ (237,719) | \$ (142,518) | \$ (181,145) |
| Adjustments (pretax): | | | |
| Loss contingencies - litigation | 71 | 71 | 71 |
| Costs related to HRB Bank and recapitalization transactions | 20,766 | 20,766 | 20,766 |
| Gains on AFS securities | (8,426) | (8,426) | (8,426) |
| Gain on sales of tax offices/businesses | (26) | (26) | (26) |
| Tax effect of adjustments | - | (4,642) | - |
| | <u>12,385</u> | <u>7,743</u> | <u>12,385</u> |
| As adjusted - from continuing operations | <u>\$ (225,334)</u> | <u>\$ (134,775)</u> | <u>\$ (168,760)</u> |
| EPS - as reported | | \$ (0.54) | |
| Impact of adjustments | | <u>0.03</u> | |
| EPS - adjusted | | <u>\$ (0.51)</u> | |

| Six months ended October 31, | 2016 | | |
|--|---------------------|---------------------|---------------------|
| | Pretax loss | Net loss | EBITDA |
| From continuing operations | \$ (432,018) | \$ (264,441) | \$ (300,900) |
| Adjustments (pretax): | | | |
| Loss contingencies - litigation | 235 | 235 | 235 |
| Tax effect of adjustments | - | (85) | - |
| | <u>235</u> | <u>150</u> | <u>235</u> |
| As adjusted - from continuing operations | <u>\$ (431,783)</u> | <u>\$ (264,291)</u> | <u>\$ (300,665)</u> |
| EPS - as reported | | \$ (1.21) | |
| Impact of adjustments | | <u>-</u> | |
| EPS - adjusted | | <u>\$ (1.21)</u> | |

| Six months ended October 31, | 2015 | | |
|---|---------------------|---------------------|---------------------|
| | Pretax loss | Net loss | EBITDA |
| From continuing operations | \$ (424,828) | \$ (239,023) | \$ (319,449) |
| Adjustments (pretax): | | | |
| Loss contingencies - litigation | 689 | 689 | 689 |
| Costs related to HRB Bank and recapitalization transactions | 20,818 | 20,818 | 20,818 |
| Gains on AFS securities | (8,138) | (8,138) | (8,138) |
| Gain on sales of tax offices/businesses | (26) | (26) | (26) |
| Tax effect of adjustments | - | (5,000) | - |
| | <u>13,343</u> | <u>8,343</u> | <u>13,343</u> |
| As adjusted - from continuing operations | <u>\$ (411,485)</u> | <u>\$ (230,680)</u> | <u>\$ (306,106)</u> |
| | | \$ (0.88) | |
| | | <u>0.03</u> | |
| Adjusted EPS | | <u>\$ (0.85)</u> | |

| Supplemental Information | Three months ended October 31, | | Six months ended October 31, | |
|------------------------------------|--------------------------------|-----------|------------------------------|-----------|
| | 2016 | 2015 | 2016 | 2015 |
| Stock-based compensation expense: | | | | |
| Pretax | \$ 6,931 | \$ 7,858 | \$ 12,472 | \$ 13,876 |
| After-tax | 4,467 | 4,910 | 7,946 | 8,677 |
| Amortization of intangible assets: | | | | |
| Pretax | \$ 20,051 | \$ 17,865 | \$ 38,037 | \$ 34,479 |
| After-tax | 12,940 | 11,161 | 24,233 | 21,560 |

NON-GAAP FINANCIAL INFORMATION

The accompanying press release contains non-GAAP financial measures. Non-GAAP financial measures should not be considered as a substitute for, or superior to, measures of financial performance prepared in accordance with GAAP. Because these measures are not measures of financial performance under GAAP and are susceptible to varying calculations, they may not be comparable to similarly titled measures for other companies.

We consider our non-GAAP financial measures to be performance measures and a useful metric for management and investors to evaluate and compare the ongoing operating performance of our business on a consistent basis across reporting periods, as it eliminates the effect of items that are not indicative of our core operating performance.

The following are descriptions of adjustments we make for our non-GAAP financial measures:

- We exclude losses from settlements and estimated contingent losses from litigation and favorable reserve adjustments. This does not include legal defense costs.
- We exclude material non-cash charges to adjust the carrying values of goodwill, intangible assets, other long-lived assets and investments to their estimated fair values.
- We exclude material severance and other restructuring charges in connection with the termination of personnel, closure of offices and related costs.

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

We may consider whether other significant items that arise in the future should also be excluded from our non-GAAP financial measures.

We measure the performance of our business using a variety of metrics, including EBITDA from continuing operations and adjusted EBITDA from continuing operations, adjusted pretax and net income of continuing operations, and adjusted diluted earnings per share from continuing operations. Adjusted EBITDA from continuing operations, adjusted pretax and net income from continuing operations, and adjusted diluted earnings per share from continuing operations eliminate the impact of items that we do not consider indicative of our core operating performance and, we believe, provide meaningful information to assist in understanding our financial results, analyzing trends in our underlying business, and assessing our prospects for future performance. We also use EBITDA from continuing operations and pretax income of continuing operations, each subject to permitted adjustments, as performance metrics in incentive compensation calculations for our employees.

For Further Information

Investor Relations:

Colby Brown

(816) 854-4559

[Email contact](#)

Media Relations:

Gene King

(816) 854-4672

[Email contact](#)

Source: H & R Block