

H&R Block Reports Third Quarter Financial Results

February 23, 2006 4:05 PM ET

KANSAS CITY, Mo.--(BUSINESS WIRE)--Feb. 23, 2006--H&R Block Inc. (NYSE: HRB)

- Revenues Up; Earnings Impacted by Lower Mortgage Results and Litigation Settlement Cost
- Corporate Tax Remediation to Result in Prior-Period Restatement
- Full-Year Earnings Guidance Changed to \$1.65 to \$1.85 per Share

H&R Block Inc. (NYSE: HRB) today reported that revenues rose 12 percent in its fiscal third quarter to \$1.2 billion from \$1.0 billion in the prior-year period. Slightly lower revenues in Mortgage Services were offset by higher revenues in all other segments of the company's operations.

Net earnings were \$28.8 million, or 9 cents per diluted share, for the third quarter of fiscal 2006. The quarterly results include an after-tax charge of \$31.7 million, or 10 cents per share, for a previously announced proposed litigation settlement and associated legal costs. For the third quarter of 2005, net earnings were \$92.3 million, or 28 cents per share, which included the benefit of a \$10.1 million after-tax legal recovery representing 3 cents per share.

"As we head into our busiest quarter of the year, we've seen an industry-wide slower start to the tax filing season than in previous years," said Mark A. Ernst, chairman and chief executive officer. "Early season operating challenges experienced in our tax business further hurt our January comparative results. Results since January have begun to reverse the effects of this later start.

"Within our Mortgage business, pricing changes we implemented over the past five months have begun to have the effect that we expected in terms of improving gains on sale," said Ernst. "Loan origination levels have been at the lower end of our expectations as competitive pressures in the industry continue. We continue to take those actions that we believe will optimize the profitability of our business going forward."

Tax Services pretax earnings improved 3 percent over last year's quarter, excluding the effect of the litigation charge, driven by higher pricing. Mortgage Services earnings increased 46 percent over the previous quarter but were down 42 percent over year-ago results. Results for both Investment Services and Business Services matched the company's expectations.

As part of its ongoing work to remediate control weaknesses in its corporate tax function, the company said that it will restate its results for fiscal years 2005 and 2004, as well as previously reported quarterly results for fiscal 2006. The restatement pertains principally to errors in determining the company's state effective income tax rate, resulting in a cumulative understatement of its state income tax liability of approximately \$32 million as of April 30, 2005. The company estimates that the restatement will result in a 7-cent decrease in earnings per share in fiscal 2005 and a 2-cent decrease in earnings per share in fiscal 2004. The company has not completed its analysis of the restatement adjustments, and, accordingly, the effects of the restatement on all prior periods are preliminary and subject to change. These adjustments are also being reviewed with the company's registered public accounting firm. The company will report in amended filings with the Securities and Exchange Commission the further restatement of results for fiscal years 2005 and 2004, and restatements for the first two quarters of fiscal 2006 for the income tax adjustments.

The company has updated its fiscal 2006 earnings guidance to a range of \$1.65 to \$1.85 per share, down from its previous range of \$1.90 to \$2.15 per share. The new range reflects results to date for fiscal 2006 and excludes the litigation and any special charges.

Commenting on the outlook for the company's results, Ernst said, "Given the continued aggressive pricing in the mortgage industry and our slow start to the tax season, we believe that it is prudent to take a cautious view of the fourth quarter."

For the nine months ended Jan. 31, 2006, H&R Block reported a net loss of \$81.4 million, or 25 cents per share, compared with earnings of \$8.8 million, or 3 cents per share, for the same period of fiscal 2005. Nine-month revenues rose 15 percent to \$2.4 billion in fiscal 2006 from \$2.1 billion last year.

Tax Services

Third quarter fiscal 2006 revenues increased 3 percent to \$548.5 million from \$531.1 million in the prior-year period. Pretax earnings of \$13.2 million in the current quarter were down \$50.5 million from last year. Excluding the impact of the \$52.2 million litigation charge, pretax earnings increased approximately 3 percent.

Both years include expenses for expanding the capacity and size of the H&R Block retail network. Just over 1,000 new U.S. retail locations have opened for this tax season, consisting of approximately 750 company-owned regular and shared office locations, and 250 franchise regular and shared office locations.

The average fee per client served for company-owned and franchise operations increased 6.0 percent to \$151.61 for the month of January 2006, helping to lift revenues and offsetting a 2.2 percent decrease in retail clients served.

Early tax season results through Feb. 15 for company-owned and franchise operations include a 1.8 percent increase in tax preparation and related fees over the comparable period of last year. There was a 6.1 percent increase in average fee per client to \$152.66, which offset a 4.1 percent decrease in clients served.

"A later start to the tax season for both H&R Block and the industry has put us behind where we were at this point last year," Ernst said. The first peak of the filing season has been occurring later and later over the past few years, he noted.

"Technology problems across the H&R Block network in early January impacted our ability to serve clients in those crucial early weeks. While those problems have been corrected, we missed the opportunity to serve nearly 250,000 clients at a time of year when quick access to their tax refunds was the key concern in selecting a tax services provider," Ernst said.

"We're pleased with the start we've had for TaxCut software and online products, and we are accomplishing the strategic objective we had for this business of building a more significant presence in the digital market," Ernst said. The company implemented an integrated TaxCut marketing and brand-building campaign this year, and revamped the products' look and feel for ease of use and an improved client experience.

Tax Services increased its revenues to \$686.5 million for the first nine months of fiscal 2006 versus \$655.6 million in the fiscal 2005 period, and reported a pretax loss of \$274.2 million (including the \$52.2 million litigation charge) versus last year's \$182.9 million loss.

Mortgage Services

Pretax income in Mortgage Services declined in the fiscal 2006 third quarter to \$67.5 million from \$115.5 million last year. Revenues slipped to \$296.5 million in the current-year quarter from \$308.9 million a year ago, despite a higher contribution from loan servicing.

Loan origination volume of \$9.0 billion increased 7 percent over the year-ago quarter but was off 29 percent from record volume posted in the second quarter of fiscal 2006, primarily as a result of interest rate increases and the somewhat slower U.S. housing market.

Gain on sale margin increased to 2.55 percent versus 1.57 percent in the previous quarter. Lower origination volume was the primary cause for an increase in third quarter mortgage origination costs, which reached 2.12 percent versus 1.79 percent in the fiscal 2006 second quarter. The net margin of 0.39 percent was near the low end of the company's target for the quarter.

Total gain on sale for Mortgage Services was \$157.9 million in the current quarter, 20 percent lower than \$198.6 million in last year's period.

As part of their continuing efforts to improve cost structures and streamline processes, Option One and H&R Block Mortgage are consolidating a number of operations to better compete in the aggressive operating environment that has developed over the past year. These actions include consolidation of Option One branch offices and, within H&R Block Mortgage, the closing of small financial centers and consolidation of regional call centers. The actions will reduce staffing by about 600 positions and result in a pretax charge of approximately \$10 million to \$12 million to be recorded in the fourth quarter of fiscal 2006.

"The changes we're making will help ensure the long-term competitiveness of our mortgage businesses," Ernst said. "These actions, along with steps taken to streamline our processes and utilize new technologies, are part of our focus on reducing our cost of origination."

Option One increased its mortgage servicing portfolio 30 percent to \$76.8 billion at the end of this year's third quarter versus \$59.0 billion a year earlier. Servicing revenues advanced 45 percent to \$106.1 million in the current quarter from \$72.9 million in the year-ago period, and servicing pretax earnings increased by about \$7 million.

The company realized a net write-up to residuals of \$13.1 million in the quarter, which was recorded in other comprehensive income, net of deferred taxes. The company also recorded \$8.6 million of impairments, which is recorded in gains on sales of mortgage assets in the income statement.

For the first nine months of fiscal 2006, revenues of \$943.1 million were 9 percent ahead of last year's \$865.2 million, and pretax income was \$248.2 million, compared with \$333.0 million in the fiscal 2005 period.

Business Services

In the fiscal 2006 third quarter, the Business Services segment posted a pretax loss of \$1.0 million, compared with earnings of \$5.9 million in the prior year. The current quarter figure includes off-season losses from the recently acquired American Express Tax and Business Services (Amex TBS) business. Revenues rose 77 percent to \$235.8 million from \$132.9 million a year earlier. Excluding the acquisition, quarterly revenues increased approximately 6 percent for the segment.

"The results for the quarter are consistent with our expectations and reflect solid progress with the Amex TBS integration," Ernst said. "As we move into our most significant quarter of the year for this business, we feel confident that our efforts will continue to demonstrate the strong position we're developing in this market."

Nine-month fiscal 2006 revenues of \$529.5 million were 43 percent greater than \$371.0 million in last year's period. Pretax loss was \$9.9 million, including a \$9.3 million loss related to the Amex TBS acquisition, versus last year's pretax loss of \$9.0 million.

Investment Services

Investment Services posted its fourth consecutive quarter of improved year-over-year results. The pretax loss of \$7.7 million in the quarter was 61 percent better than a loss of \$19.8 million in the third quarter of fiscal 2005. Included in the quarterly loss in both years is \$9.2 million of intangible amortization. Revenues in the fiscal 2006 third quarter rose 18 percent to \$73.2 million from \$62.1 million in the prior-year period.

The improvements were driven by higher production levels, higher net interest revenues due to higher rates and the benefits of cost control.

"The steady performance improvement at H&R Block Financial Advisors continues to be encouraging," Ernst said. "We have expanded relationships between our financial advisors and tax professionals to serve more of the financial needs of

our clients, and we've been successful in moving clients from Tax Services into Financial Advisor account relationships."

Fiscal year to date through January 2006, nearly 11,000 new funded accounts from tax clients were opened, contributing assets of \$542 million and about \$8 million in revenues, a 55 percent improvement over the prior-year period. Total assets under administration at the end of January 2006 were \$31.4 billion, up 11 percent year-over-year.

For the first nine months of fiscal 2006, revenues increased 25 percent to \$211.2 million from \$169.4 million in the prior-year period, and the pretax loss declined 62 percent to \$23.1 million from \$60.9 million.

Dividend Declared

H&R Block's board of directors declared a quarterly cash dividend of 12.5 cents per share, payable April 3, 2006, to shareholders of record March 13, 2006. The payment will be the company's 174th consecutive quarterly dividend.

Conference Call

H&R Block will host a conference call for analysts, institutional investors and shareholders at 5 p.m. EST (4 p.m. CST) Feb. 23. Mark A. Ernst, chairman and chief executive officer, and William L. Trubeck, executive vice president and chief financial officer, will discuss the quarter and future expectations, as well as respond to analysts' questions. To access the call, please dial the number below approximately 5 to 10 minutes prior to the scheduled starting time:

U.S./Canada 888-425-2715 -- Access Code 2013187

International 706-679-8257 -- Access Code 2013187

The call will be webcast in a listen-only format for the media and public. The link to the webcast can be obtained at www.hrblock.com. Supplemental financial and statistical information will be available in connection with the webcast, or can be accessed directly on H&R Block's Investor Relations Web site at www.hrblock.com/about/investor following market close.

A replay of the call will be available beginning at 6 p.m. EST Feb. 23 and continuing until 12 a.m. EST March 10, by dialing 800-642-1687 (U.S./Canada) or 706-645-9291 (International). The replay access code is 2013187. A replay of the webcast will also be available on the company's Web site at www.hrblock.com/about/investor.

Except for historical information contained herein, the matters set forth in this press release are forward-looking statements based upon current information and expectations. Such statements speak only as of the date on which they are made, are not guarantees of future performance, and involve certain risks, uncertainties and assumptions that could cause actual results to differ materially from what is expressed, implied or forecast in such forward-looking statements.

Such differences could be caused by a number of factors, including, but not limited to: the uncertainty that the company will achieve or exceed its revenue, earnings, and earnings-per-share growth goals or expectations for fiscal year 2006; the uncertainty of the impact and effect of the company's restatements of its financial statements; the uncertainty of the company's ability to purchase shares of its common stock pursuant to the board's authorization; the uncertainty of the effect of any share repurchases upon the company and its shareholders; changes in interest rates; changes in the company's effective income tax rate; changes in economic, political or regulatory environments; changes in competition; litigation involving the company and its subsidiaries; and risks described from time to time in reports and registration statements filed by H&R Block Inc. and its subsidiaries with the Securities and Exchange Commission. Readers should take these factors into account in evaluating such forward-looking statements.

About H&R Block

H&R Block Inc. (NYSE: HRB) is a leading provider of tax, financial, mortgage, accounting and business consulting services and products. H&R Block is the world's largest tax services provider, having prepared more than 400 million tax returns

since 1955. The company and its subsidiaries generated revenues of \$4.4 billion and net income of \$636 million in fiscal year 2005 from operations in four principal business segments: tax preparation and advice via in-office, online and software solutions; investment and financial advisory services; retail and wholesale mortgage services; and tax/accounting /business consulting services for mid-sized businesses. Headquartered in Kansas City, Mo., H&R Block markets its services and products under three leading brands -- H&R Block, Option One and RSM McGladrey. For more information visit our Online Press Center at www.hrblock.com.

H&R BLOCK

KEY OPERATING RESULTS

Preliminary and unaudited, amounts in thousands, except per share data

| Three months ended January 31, | | | | | |
|--------------------------------|-------------|-----------------|----------|-----------------|------|
| | | Revenues | | Income (loss) | |
| | | 2006 | 2005 | 2006 | 2005 |
| | | Restated (1) | | Restated (1) | |
| Tax Services | \$548,494 | \$531,086 | \$13,168 | \$63,655 | |
| Mortgage Services | 296,493 | 308,872 | 67,453 | 115,483 | |
| Business Services | 235,840 | 132,872 | (1,035) | 5,916 | |
| Investment Services | 73,176 | 62,104 | (7,668) | (19,775) | |
| Corporate | 2,744 | 1,302 | (27,010) | (12,001) | |
| | \$1,156,747 | \$1,036,236 | 44,908 | 153,278 | |
| Income taxes | | | 16,060 | 60,958 | |
| Net income | | | \$28,848 | \$92,320 | |
| Basic earnings per share | | | \$0.09 | \$0.28 | |
| Basic shares outstanding | | | 327,289 | 329,039 | |
| Diluted earnings per share | | | \$0.09 | \$0.28 | |
| Diluted shares outstanding | | | 331,935 | 334,875 | |

| Nine months ended January 31, | | | | | |
|-------------------------------|-------------|-----------------|-------------|-----------------|------|
| | | Revenues | | Income (loss) | |
| | | 2006 | 2005 | 2006 | 2005 |
| | | Restated (1) | | Restated (1) | |
| Tax Services | \$686,498 | \$655,639 | \$(274,202) | \$(182,923) | |
| Mortgage Services | 943,082 | 865,177 | 248,160 | 332,980 | |
| Business Services | 529,491 | 371,021 | (9,943) | (9,021) | |
| Investment Services | 211,177 | 169,446 | (23,126) | (60,882) | |
| Corporate | 6,535 | 3,457 | (74,979) | (65,494) | |
| | \$2,376,783 | \$2,064,740 | (134,090) | 14,660 | |

| | | |
|-----------------------------------|------------|---------|
| Income taxes (benefit) | (52,711) | 5,830 |
| | ----- | |
| Net income (loss) | \$(81,379) | \$8,830 |
| | ===== | |
| Basic earnings (loss) per share | \$(0.25) | \$0.03 |
| | ===== | |
| Basic shares outstanding | 328,017 | 331,894 |
| Diluted earnings (loss) per share | \$(0.25) | \$0.03 |
| | ===== | |
| Diluted shares outstanding | 328,017 | 337,889 |

(1) Restated amounts include restatement items noted in our Annual Report on Form 10-K/A for the year ended April 30, 2005, as well as an estimate of the restatement impact of income tax adjustments as discussed in the notes attached hereto.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

During our closing process for the three months ended January 31, 2006, we determined a restatement of our quarterly 2006 and fiscal year 2005 and 2004 financial statements was warranted. We determined a restatement was necessary as the cumulative adjustment required was too large to record in the third quarter of fiscal year 2006. The restatement pertains to errors in determining the Company's state effective income tax rate in prior periods, and had no impact on pretax results.

Financial results referred to in this release reflect preliminary income tax restatement adjustments for the current year and prior year. We have not completed our analysis of the income tax restatement adjustments, and accordingly, the effects are preliminary and subject to change. Because the restatement adjustments have not yet been reviewed by our registered public accounting firm, all results presented in this release are preliminary and unaudited. We will file amendments to our filings with the Securities and Exchange Commission to reflect the impact of restatement on our previously issued audited annual and unaudited interim financial statements and related disclosures.

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

Basic earnings per share is based on the weighted average number of shares outstanding. The dilutive effect of potential common shares is included in diluted earnings per share except in those periods with a loss.

Certain reclassifications have been made to prior year amounts to conform to the current period presentation. These reclassifications had no effect on the results of operations or stockholders' equity as previously reported.

H&R BLOCK

CONDENSED CONSOLIDATED BALANCE SHEETS

Preliminary and unaudited, amounts in thousands, except share data

| | | |
|--|-------------|-----------|
| | ----- | ----- |
| | January 31, | April 30, |
| | 2006 | 2005 |

| ASSETS | ----- | Restated (2) ----- |
|---|-------------|--------------------------|
| Current assets: | | |
| Cash and cash equivalents | \$1,460,180 | \$1,100,213 |
| Cash and cash equivalents - restricted | 430,713 | 516,909 |
| Receivables from customers, brokers, dealers and clearing organizations, net | 569,430 | 590,226 |
| Receivables, net | 1,810,945 | 418,788 |
| Prepaid expenses and other current assets | 561,484 | 444,498 |
| | ----- | ----- |
| Total current assets | 4,832,752 | 3,070,634 |
| | ----- | ----- |
| Residual interests in securitizations - available-for-sale | 175,068 | 205,936 |
| Beneficial interest in Trusts - trading | 279,714 | 215,367 |
| Mortgage servicing rights | 262,369 | 166,614 |
| Property and equipment, net | 415,844 | 330,150 |
| Intangible assets, net | 235,236 | 247,092 |
| Goodwill, net | 1,104,267 | 1,015,947 |
| Other assets | 369,164 | 287,543 |
| | ----- | ----- |
| Total assets | \$7,674,414 | \$5,539,283 |
| | ===== | ===== |
| | | |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Short-term borrowings | \$2,595,948 | \$- |
| Current portion of long-term debt | 13,373 | 25,545 |
| Accounts payable to customers, brokers and dealers | 851,827 | 950,684 |
| Accounts payable, accrued expenses and other | 763,244 | 564,749 |
| Accrued salaries, wages and payroll taxes | 291,811 | 318,644 |
| Accrued income taxes | 225,150 | 381,170 |
| | ----- | ----- |
| Total current liabilities | 4,741,353 | 2,240,792 |
| | ----- | ----- |
| Long-term debt | 916,926 | 923,073 |
| Other noncurrent liabilities | 417,200 | 430,919 |
| | ----- | ----- |
| Total liabilities | 6,075,479 | 3,594,784 |
| | ----- | ----- |
| Stockholders' equity: | | |
| Common stock, no par, stated value \$.01 per share | 4,359 | 4,359 |
| Additional paid-in capital | 631,729 | 598,388 |
| Accumulated other comprehensive income | 33,641 | 68,718 |
| Retained earnings | 2,956,869 | 3,156,913 |
| Less cost of 107,594,856 and 104,649,850 shares of common stock in treasury | (2,027,663) | (1,883,879) |
| Total stockholders' equity | 1,598,935 | 1,944,499 |
| | ----- | ----- |
| Total liabilities and stockholders' equity | \$7,674,414 | \$5,539,283 |
| | ===== | ===== |

(2) Restated amounts include an estimate of the restatement impact of income tax adjustments as discussed in the notes attached hereto.

| | ----- Nine months ended January 31, ----- | |
|--|--|--------------------------|
| | 2006 | 2005 |
| | | Restated (1) ----- |
| Cash flows from operating activities: | | |
| Net income (loss) | \$(81,379) | \$8,830 |
| Adjustments to reconcile net income (loss) to net cash used in operating activities: | | |
| Depreciation and amortization | 138,882 | 127,631 |
| Accretion of residual interests in securitizations | (93,189) | (96,242) |
| Impairment of residual interests in securitizations | 29,175 | 7,162 |
| Additions to trading securities - residual interests in securitizations | (228,587) | (115,213) |
| Proceeds from net interest margin transactions | 210,264 | 98,743 |
| Realized gain on sale of residual interests | (28,675) | - |
| Additions to mortgage servicing rights | (196,245) | (94,569) |
| Amortization and impairment of mortgage servicing rights | 100,490 | 60,879 |
| Net change in beneficial interest in Trusts | (64,347) | (8,735) |
| Other net changes in working capital, net of acquisitions | (1,475,936) | (1,552,919) |
| Net cash used in operating activities | (1,689,547) | (1,564,433) |
| Cash flows from investing activities: | | |
| Cash received from residual interests in securitizations | 74,931 | 100,344 |
| Cash received from sale of residual interests in securitizations | 30,497 | - |
| Purchases of property and equipment, net | (167,181) | (143,232) |
| Payments made for business acquisitions, net of cash acquired | (209,816) | (26,348) |
| Other, net | 17,297 | 15,207 |
| Net cash used in investing activities | (254,272) | (54,029) |
| Cash flows from financing activities: | | |
| Repayments of commercial paper | (2,632,444) | (2,348,966) |
| Proceeds from issuance of commercial paper | 4,678,392 | 3,877,848 |
| Proceeds from other short-term borrowings | 550,000 | - |
| Repayments of long-term debt | - | (250,000) |
| Proceeds from issuance of long-term debt | - | 395,221 |
| Dividends paid | (118,665) | (106,422) |
| Acquisition of treasury shares | (260,078) | (529,852) |
| Proceeds from issuance of common stock | 105,760 | 119,892 |
| Other, net | (19,179) | (35,414) |
| Net cash provided by financing activities | 2,303,786 | 1,122,307 |
| Net increase (decrease) in cash and cash equivalents | 359,967 | (496,155) |
| Cash and cash equivalents at beginning of the period | 1,100,213 | 1,072,745 |

Cash and cash equivalents at end of the period \$1,460,180 \$576,590
=====

Supplementary cash flow data:

| | | |
|-------------------|-----------|-----------|
| Income taxes paid | \$224,774 | \$406,576 |
| Interest paid | 62,980 | 53,587 |

(1) Restated amounts include restatement items noted in our Annual Report on Form 10-K/A for the year ended April 30, 2005, as well as an estimate of the restatement impact of income tax adjustments as discussed in the notes attached hereto.

H&R BLOCK

CONDENSED CONSOLIDATED INCOME STATEMENTS

Preliminary and unaudited, amounts in thousands, except per share data

| | Three months ended January 31, | | Nine months ended January 31, | |
|---|-----------------------------------|-----------------|----------------------------------|-----------------|
| | 2006 | 2005 | 2006 | 2005 |
| | | Restated (1) | | Restated (1) |
| Revenues: | | | | |
| Service revenues | \$812,224 | \$657,306 | \$1,511,615 | \$1,196,126 |
| Other revenues: | | | | |
| Gains on sales of mortgage assets, net | 157,897 | 198,579 | 541,595 | 566,087 |
| Interest income | 51,074 | 50,550 | 155,337 | 138,822 |
| Product and other revenues | 135,552 | 129,801 | 168,236 | 163,705 |
| | 1,156,747 | 1,036,236 | 2,376,783 | 2,064,740 |
| Operating expenses: | | | | |
| Cost of service revenues | 633,927 | 508,207 | 1,364,362 | 1,123,266 |
| Cost of other revenues | 144,663 | 133,343 | 402,884 | 307,987 |
| Selling, general and administrative | 324,746 | 248,114 | 720,547 | 593,177 |
| | 1,103,336 | 889,664 | 2,487,793 | 2,024,430 |
| Operating income (loss) | 53,411 | 146,572 | (111,010) | 40,310 |
| Interest expense | 12,211 | 13,026 | 37,031 | 48,900 |
| Other income, net | 3,708 | 19,732 | 13,951 | 23,250 |
| Income (loss) before taxes | 44,908 | 153,278 | (134,090) | 14,660 |
| Income taxes (benefit) | 16,060 | 60,958 | (52,711) | 5,830 |
| Net income (loss) | \$28,848 | \$92,320 | \$(81,379) | \$8,830 |
| Basic earnings (loss) per share | \$0.09 | \$0.28 | \$(0.25) | \$0.03 |

Basic shares

| | | | | |
|--------------------------------------|---------|---------|----------|---------|
| outstanding | 327,289 | 329,039 | 328,017 | 331,894 |
| Diluted earnings (loss) per share | \$0.09 | \$0.28 | \$(0.25) | \$0.03 |
| | ===== | ===== | ===== | ===== |
| Diluted shares outstanding | 331,935 | 334,875 | 328,017 | 337,889 |

(1) Restated amounts include restatement items noted in our Annual Report on Form 10-K/A for the year ended April 30, 2005, as well as an estimate of the restatement impact of income tax adjustments as discussed in the notes attached hereto.

H&R BLOCK
Preliminary U.S. Tax Operating Data

| | (in thousands, except average fee and number of offices) | | |
|---------------------------------|---|-----------|-------------|
| | ----- Period ----- | | |
| | 1/1-1/31 | 2/1-2/15 | YTD 2/15 |
| | ----- | ----- | ----- |
| Tax preparation & related fees: | | | |
| Fiscal year 2006 | | | |
| Company-owned operations | \$379,959 | \$434,958 | \$814,917 |
| Franchise operations | 191,610 | 204,713 | 396,323 |
| | ----- | ----- | ----- |
| | \$571,569 | \$639,671 | \$1,211,240 |
| | ===== | ===== | ===== |
| Fiscal year 2005 (1) | | | |
| Company-owned operations | \$367,294 | \$436,695 | \$803,989 |
| Franchise operations | 183,556 | 202,669 | 386,225 |
| | ----- | ----- | ----- |
| | \$550,850 | \$639,364 | \$1,190,214 |
| | ===== | ===== | ===== |
| Percent change | | | |
| | ----- | ----- | ----- |
| Company-owned operations | 3.4% | -0.4% | 1.4% |
| | ----- | ----- | ----- |
| Franchise operations | 4.4% | 1.0% | 2.6% |
| | ----- | ----- | ----- |
| Total retail operations | 3.8% | 0.0% | 1.8% |
| | ----- | ----- | ----- |
| Total clients served: | | | |
| Fiscal year 2006 | | | |
| Company-owned operations | 2,372 | 2,677 | 5,049 |
| Franchise operations | 1,398 | 1,487 | 2,885 |
| | ----- | ----- | ----- |
| | 3,770 | 4,164 | 7,934 |
| | ===== | ===== | ===== |
| Fiscal year 2005 (1) | | | |
| Company-owned operations | 2,450 | 2,874 | 5,324 |
| Franchise operations | 1,403 | 1,544 | 2,947 |
| | ----- | ----- | ----- |
| | 3,853 | 4,418 | 8,271 |
| | ===== | ===== | ===== |
| Percent change | | | |
| | ----- | ----- | ----- |
| Company-owned operations | -3.2% | -6.9% | -5.2% |
| | ----- | ----- | ----- |
| Franchise operations | -0.4% | -3.7% | -2.1% |

| | | | |
|-------------------------|-------|-------|-------|
| Total retail operations | -2.2% | -5.7% | -4.1% |
|-------------------------|-------|-------|-------|

Average fee per client served: (2)

| | | | |
|--------------------------|----------|----------|----------|
| Fiscal year 2006 | | | |
| Company-owned operations | \$160.19 | \$162.48 | \$161.40 |
| Franchise operations | 137.06 | 137.67 | 137.37 |
| | \$151.61 | \$153.62 | \$152.66 |

| | | | |
|--------------------------|----------|----------|----------|
| Fiscal year 2005 (1) | | | |
| Company-owned operations | \$149.92 | \$151.95 | \$151.01 |
| Franchise operations | 130.83 | 131.26 | 131.06 |
| | \$142.97 | \$144.72 | \$143.90 |

Percent change

| | | | |
|--------------------------|------|------|------|
| Company-owned operations | 6.8% | 6.9% | 6.9% |
| Franchise operations | 4.8% | 4.9% | 4.8% |
| Total retail operations | 6.0% | 6.2% | 6.1% |

| | | | |
|---|---------|---------|-------|
| Offices: | FY 2006 | FY 2005 | |
| Company-owned offices | 6,387 | 5,811 | 9.9% |
| Company-owned shared office locations (3) | 1,473 | 1,296 | 13.7% |
| Total company-owned offices | 7,860 | 7,107 | 10.6% |
| Franchise offices | 3,703 | 3,528 | 5.0% |
| Franchise shared office locations (3) | 602 | 526 | 14.4% |
| Total franchise offices | 4,305 | 4,054 | 6.2% |
| Total retail offices | 12,165 | 11,161 | 9.0% |

(1) Prior year numbers have been reclassified between company-owned and franchise operations for offices which commenced company-owned operations during fiscal year 2006.

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

(3) Shared office locations include offices located within Wal-Mart, Sears and other third-party businesses.

H&R BLOCK
 SELECTED OPERATING DATA
 Unaudited

Mortgage Services

| | | | | |
|--------------------|-----------|--------|------------|--------|
| Three months ended | | | | |
| | | % | | % |
| 1/31/2006 | 1/31/2005 | change | 10/31/2005 | change |

| Volume of loans originated (thousands): | | | | | |
|---|-------------|-------------|--------|--------------|--------|
| Wholesale (non-prime) | \$7,941,048 | \$7,378,071 | 7.6% | \$11,078,960 | -28.3% |
| Retail: Non-prime | 667,542 | 776,797 | -14.1% | 1,111,924 | -40.0% |
| Prime | 343,897 | 238,867 | 44.0% | 429,924 | -20.0% |
| | 1,011,439 | 1,015,664 | -0.4% | 1,541,848 | -34.4% |
| Total | \$8,952,487 | \$8,393,735 | 6.7% | \$12,620,808 | -29.1% |

| Loan characteristics: | | | | | |
|--|-------|-------|-------|-------|-------|
| Average loan size (thousands) | \$194 | \$164 | 18.3% | \$188 | 3.2% |
| Weighted average interest rate (WAC) (1) | 8.27% | 7.30% | 0.97% | 7.48% | 0.79% |
| Weighted average FICO score (1) | 621 | 615 | | 629 | |

| | | | | | |
|------------------------|-------------|-------------|------|--------------|--------|
| Loan sales (thousands) | \$8,924,788 | \$8,348,537 | 6.9% | \$12,497,526 | -28.6% |
|------------------------|-------------|-------------|------|--------------|--------|

| Servicing portfolio: | | | | | |
|--------------------------------|---------|---------|-------|---------|-------|
| Number of loans serviced | 466,026 | 387,619 | 20.2% | 500,935 | -7.0% |
| Servicing portfolio (billions) | \$76.8 | \$59.0 | 30.2% | \$82.4 | -6.8% |

(1) Represents non-prime production only.

| Investment Services | Three months ended | | | | |
|-------------------------------|--------------------|-----------|----------|------------|----------|
| | 1/31/2006 | 1/31/2005 | % change | 10/31/2005 | % change |
| Customer trades (2) | 255,879 | 245,612 | 4.2% | 233,262 | 9.7% |
| Customer daily average trades | 4,127 | 3,899 | 5.8% | 3,589 | 15.0% |
| Average revenue per trade (3) | \$113.83 | \$120.62 | -5.6% | \$123.16 | -7.6% |
| Customer accounts: (4) | | | | | |
| Traditional brokerage | 426,699 | 431,902 | -1.2% | 428,543 | -0.4% |

| | | | | | |
|--|----------|----------|--------|----------|-------|
| Express IRAs | 381,859 | 295,676 | 29.1% | 378,200 | 1.0% |
| | ----- | ----- | | ----- | |
| | 808,558 | 727,578 | 11.1% | 806,743 | 0.2% |
| | ===== | ===== | | ===== | |
| Ending balance of assets under administration (billions) | \$31.4 | \$28.4 | 10.6% | \$29.8 | 5.4% |
| Average assets per traditional brokerage account | \$72,914 | \$65,339 | 11.6% | \$68,837 | 5.9% |
| Average customer margin balances (millions) | \$529 | \$596 | -11.2% | \$560 | -5.5% |
| Average payables to customers (millions) | \$769 | \$989 | -22.2% | \$794 | -3.1% |
| Advisors | 956 | 1,013 | -5.6% | 995 | -3.9% |

(2) Includes only trades on which revenues are earned ("revenue trades"). Revenues, defined as trading revenues, are earned on both transactional and annuitized trades.

(3) Calculated as trading revenues divided by revenue trades.

(4) Includes only accounts with a positive period-end balance.

CONTACT: H&R Block Inc.

Media Relations:

Nick Iammartino, 816-932-4835

nick.iammartino@hrblock.com

or

Investor Relations:

Scott Dudley, 816-932-8342

scott.dudley@hrblock.com

SOURCE: H&R Block Inc.