



**H&R BLOCK**<sup>®</sup>  
NEVER SETTLE FOR LESS<sup>SM</sup>

**FY14 Q1 Earnings Conference Call  
September 3, 2013**

## Forward-Looking Statements

This presentation and various comments made in connection with it will contain 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,” “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, 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. 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 and which are described in our Annual Report on Form 10-K for the fiscal year ended April 30, 2012 in the section entitled “Risk Factors,” as well as additional factors we may describe from time to time in other filings with the Securities and Exchange Commission. 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.



**H&R BLOCK**<sup>®</sup>  
NEVER SETTLE FOR LESS<sup>SM</sup>

**Bill Cobb**  
**President and Chief Executive Officer**

- Continue to believe that the challenges faced by the industry last year were an exception
  - Don't have complete information from the IRS on returns filed in 2013
  - Believe IRS filings will grow around 1 percent in 2014
  
- Primary objective this upcoming season will be to strike the right balance of profitability and growth

- Announced intent to explore strategic alternatives for H&R Block Bank as the regulatory constraints that would result from proposed rules are inconsistent with our strategic plans
  
- Two objectives in exiting the Bank:
  1. Cease being regulated as a savings and loan holding company
  2. Find the right partner that can help us continue to grow our financial services business
  
- On July 11, 2013, we announced that H&R Block Bank had entered into a definitive agreement with Republic Bank & Trust Co. to sell certain assets and liabilities, with the intent of forming a long-term relationship with Republic to offer core financial services products to our clients
  - Confident that the structure put in place and partner selected accomplish two objectives
  - The transaction is contingent on various closing conditions, including successfully negotiating, executing, and fulfilling other agreements with Republic
  - Republic filed an application with their regulator to convert to a national bank charter, which is being processed by Republic's regulators concurrent with the review of the transaction between H&R Block Bank and Republic
  - Agreement requires regulatory approval from respective bank regulators, which we acknowledged carried no certainty regarding approval or timing

- Republic has indicated that their regulators will require additional time to process their applications
  - Unlikely that regulatory approval will be received by September 30
  - Expect to continue offering our financial services products to our clients through H&R Block Bank for tax season 2014
  
- H&R Block Bank remains well capitalized, and we have made significant progress in our financial services business over the last two years
  - Will continue to provide consistent, best-in-class service to our clients
  
- Company remains focused on exiting the bank, which allows greater flexibility in our long-term capital structure

- Activity is picking up with the health insurance exchanges opening October 1
  - Expect increased publicity in the coming months as Americans begin to think about their health insurance options and how their tax situation is impacted
  
- Continue to believe that healthcare reform will not result in a materially positive impact to our business in fiscal year 2014
  - No additional updates on what new forms the IRS may employ, or how some aspects of the law will be implemented
  
- Signed agreement with GoHealth to help execute a nationwide program for healthcare exchange enrollment and a pilot program in Arizona
  - National H&R Block branded services will allow clients the option of purchasing their healthcare insurance online or over the phone through licensed agents
  - Arizona pilot will allow us to serve clients in our offices with licensed agents onsite
  - Plans to greater emphasize the tax and healthcare review in all of our offices
  
- Affordable Care Act is a long-term opportunity for H&R Block
  - Expect investment in ACA initiatives to be dilutive to earnings by 3 to 4 cents per share in 2014
  - Size, scale and resources position the company well to serve clients whom may need assistance



**H&R BLOCK**<sup>®</sup>  
NEVER SETTLE FOR LESS<sup>SM</sup>

**Greg Macfarlane**  
**Chief Financial Officer**

# Fiscal Year 2014 Q1 Results



in millions, except EPS	Actual		Adjusted	
	Fiscal Year 2014	Fiscal Year 2013	Fiscal Year 2014	Fiscal Year 2013
<b>Revenue</b>	\$127	\$96	\$127	\$96
<b>EBITDA</b>	(\$147)	(\$127)	(\$139)	(\$129)
<b>Pretax Loss</b>	(\$184)	(\$169)	(\$176)	(\$172)
<b>Net Loss</b>	(\$113)	(\$106)	(\$108)	(\$105)
<b>Weighted-Avg. Shares - Diluted</b>	273.1	277.2	273.1	277.2
<b>EPS</b>	(\$0.42)	(\$0.38)	(\$0.40)	(\$0.38)

*\*Adjusted amounts and EBITDA (earnings before interest, taxes, depreciation and amortization) are non-GAAP financial measures. See "About Non-GAAP Financial Measures" later in this presentation for more information regarding financial measures not prepared in accordance with generally accepted accounting principles (GAAP).*

- Non-GAAP loss from continuing operations increased 3% to \$108 mm, or \$0.40 per share
  - Non-GAAP results for fiscal year 2014 exclude pretax adjustments of \$8 mm, or \$0.02 per share, related to non-recurring bank transaction costs
- GAAP loss per share from continuing operations increased \$0.04 to \$0.42 per share
  - Increases in revenue were more than offset by increased expenses
  - Increased costs primarily driven by increases in expenses related to the bank transaction, higher variable costs on increased revenues, foreign exchange adjustments, and legal expenses

(\$ in millions)

Non-GAAP Pretax Results - Tax Services segment	Three months ended July 31,	
	2013	2012
Revenues	\$ 121,691	\$ 90,253
Expenses	266,085	231,158
<b>Pretax loss - as reported</b>	<b>(144,394)</b>	<b>(140,905)</b>
<b>Add back:</b>		
Loss contingencies - litigation	373	(2,302)
Severance	1,105	(501)
Loss on sales of tax offices	-	230
	<u>1,478</u>	<u>(2,573)</u>
<b>Pretax loss- as adjusted</b>	<b><u>\$(142,916)</u></b>	<b><u>\$(143,478)</u></b>

- Revenues increased \$31 mm to \$122 mm, primarily driven by timing differences in our Australian operations
  - Increased fees from financial services; preliminary results indicate Emerald Card usage is improving in the offseason
- Operating expenses increased \$35 mm to \$266 mm
  - Increase primarily driven by higher variable costs on increased revenues, foreign exchange adjustments, and increased legal expenses
- Tax Service pretax loss increased by \$3 mm to \$144 mm

(\$ in millions)

Pretax Results - Corporate	Three months ended July 31,	
	2013	2012
Revenues	\$ 5,504	\$ 6,236
Expenses	45,604	34,600
<b>Pretax loss - as reported</b>	<b>\$(40,100)</b>	<b>\$(28,364)</b>

- Revenues declined slightly to \$5.5 mm
  - Primarily due to lower interest income from H&R Block Bank's diminishing mortgage loan portfolio
- Corporate expenses increased \$11 mm to \$46 mm
  - Primarily due to professional fees related to the H&R Block Bank transaction, partially offset by lower interest expense
- Pretax loss increased \$12 mm to \$40 mm



- Balance sheet and liquidity remain strong
  - \$1.2 B unrestricted cash; \$907 mm total debt as of July 31, 2013
  - Reductions in cash from the prior quarter reflect normal offseason operating cash requirements
  
- Effective tax rate increased 100 bps to 38.6%, primarily related to differences in discrete tax items
  - Expect effective tax rate in 2014 to more closely approximate pre-2013 levels

# Discontinued Operations/Sand Canyon Corporation

- Net loss from discontinued operations of \$2 mm was essentially flat to the prior year
- Sand Canyon received \$69 mm of new claims for alleged breaches of representations and warranties (R&W) in Q1
  - Completed the review of \$39 mm of R&W claims, with no losses paid
  - \$72 mm of claims remain subject to review as of July 31
- Sand Canyon continues to engage in settlement discussions with the counterparties from which Sand Canyon has received a significant majority of its asserted claims
  - Sand Canyon's accrual for contingent losses relating to R&W remained unchanged at \$159 million

- Pleased with the progress made in the offseason in preparation for tax season 2014
- Continue to focus on driving profitable growth and maximizing value to our clients
- Competitive position remains strong and we believe that we have the right people, resources, and expertise to continue to provide best-in-class service to our clients
- Believe the actions taken in the past two years position us well to capitalize on the opportunities in the years ahead



**H&R BLOCK**<sup>®</sup>  
NEVER SETTLE FOR LESS<sup>SM</sup>

**FY14 1Q Earnings Conference Call  
September 3, 2013**



**H&R BLOCK**<sup>®</sup>  
NEVER SETTLE FOR LESS<sup>SM</sup>

**Appendix - Non-GAAP Reconciliations  
FY14 1Q Earnings Conference Call  
September 3, 2013**

# About Non-GAAP Financial Measures

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 in other companies.

We consider non-GAAP financial measures to be 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 from our non-GAAP financial measures litigation charges we incur and favorable reserve adjustments. This does not include legal defense costs.
- We exclude from our non-GAAP financial measures 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 from our non-GAAP financial measures severance and other restructuring charges in connection with the termination of personnel, closure of facilities and related costs.
- We exclude from our non-GAAP financial measures the gains and losses on business dispositions, including investment banking, legal and accounting fees.
- We exclude from our non-GAAP financial measures the gains and losses on extinguishment of debt.
- We exclude from our non-GAAP financial measures the effects of discrete income tax reserve and related adjustments recorded in a specific quarter.

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, adjusted EBITDA, adjusted pretax and net income of continuing operations, adjusted EPS and adjusted pretax results of our Tax Services segment. We also use EBITDA and pretax income of continuing operations as factors in incentive compensation calculations for our employees. These adjusted results 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.

# Non-GAAP Reconciliations

## H&R BLOCK

### NON-GAAP FINANCIAL MEASURES

Unaudited, amounts in thousands, except per share amounts

#### EBITDA and Adjusted EBITDA <sup>(1)</sup>

	Three months ended July 31,	
	2013	2012
<b>Net loss from continuing operations - as reported</b>	\$ (113,270)	\$ (105,650)
<b>Add back :</b>		
Income taxes	(71,224)	(63,619)
Interest expense	14,446	22,077
Depreciation and amortization	22,874	20,551
	(33,904)	(20,991)
<b>EBITDA from continuing operations</b>	(147,174)	(126,641)
<b>Adjustments:</b>		
Loss contingencies - litigation	373	(2,302)
Severance	1,105	(501)
Professional fees related to pending HRB Bank transaction	7,024	-
Loss on sales of tax offices	-	230
	8,502	(2,573)
<b>Adjusted EBITDA from continuing operations</b>	\$ (138,672)	\$ (129,214)

(1) Earnings before interest, taxes, depreciation and amortization

# Non-GAAP Reconciliations

## H&R BLOCK

### NON-GAAP FINANCIAL MEASURES

Unaudited, amounts in thousands, except per share amounts

#### Non-GAAP Pretax Results

	Three months ended July 31,	
	2013	2012
<b>Pretax loss from continuing operations - as reported</b>	\$ (184,494)	\$ (169,269)
<b>Add back :</b>		
Loss contingencies - litigation	373	(2,302)
Severance	1,105	(501)
Professional fees related to pending HRB Bank transaction	7,024	-
Loss on sales of tax offices	-	230
	<u>8,502</u>	<u>(2,573)</u>
<b>Pretax loss from continuing operations - as adjusted</b>	<u>\$ (175,992)</u>	<u>\$ (171,842)</u>

# Non-GAAP Reconciliations

## H&R BLOCK

### NON-GAAP FINANCIAL MEASURES

Unaudited, amounts in thousands, except per share amounts

#### Non-GAAP EPS

	Three months ended July 31,	
	2013	2012
<b>EPS from continuing operations - as reported</b>	\$ (0.42)	\$ (0.38)
<b>Add back :</b>		
Loss contingencies - litigation	-	(0.01)
Severance	-	-
Professional fees related to pending HRB Bank transaction	0.02	-
Loss on sales of tax offices	-	-
Discrete tax items	-	0.01
	0.02	-
<b>EPS from continuing operations - as adjusted</b>	\$ (0.40)	\$ (0.38)

#### Supplemental Information

Stock-based compensation expense:

Pretax	\$ 4,552	\$ 2,353
After-tax	2,791	1,431

Amortization of intangible assets:

Pretax	\$ 6,071	\$ 6,017
After-tax	3,722	3,660