

H&R BLOCK

KEY OPERATING RESULTS

Unaudited, amounts in thousands, except per share data

	Three Months Ended July 31,			
	Revenues		Income (loss)	
	2009	2008	2009	2008
Tax Services	\$ 87,963	\$ 81,700	\$ (171,974)	\$ (163,657)
Business Services	177,618	174,651	1,321	(295)
Corporate and Eliminations	9,924	15,558	(40,220)	(49,018)
	\$ 275,505	\$ 271,909	(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 earnings (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 outstanding			334,533	327,141

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 from continuing operations.

Certain reclassifications have been made to prior year amounts to conform to the current year presentation. Effective May 1, 2009, we realigned certain segments of our business to reflect a new management reporting structure. The operations of H&R Block Bank, which were 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 income and expenses of our static portfolio of mortgage loans held for investment and related assets included in Corporate. These reclassifications had no effect on our total operating expenses, results of operations or stockholders' equity as previously reported.

H&R BLOCK

CONDENSED CONSOLIDATED BALANCE SHEETS

Amounts in thousands, except share data

	July 31, 2009	April 30, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,006,303	\$ 1,654,663
Cash and cash equivalents - restricted	46,639	51,656
Receivables, net	379,177	512,814
Prepaid expenses and other current assets	396,027	351,947
Total current assets	<u>1,828,146</u>	<u>2,571,080</u>
Mortgage loans held for investment, net	707,712	744,899
Property and equipment, net	359,408	368,289
Intangible assets, net	379,622	385,998
Goodwill	852,018	850,230
Other assets	418,856	439,226
Total assets	<u><u>\$ 4,545,762</u></u>	<u><u>\$ 5,359,722</u></u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current 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	<u>1,823,126</u>	<u>2,398,280</u>
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	<u>3,355,048</u>	<u>3,953,863</u>
Stockholders' equity:		
Common stock, no par, stated value \$.01 per share	4,442	4,442
Additional paid-in capital	824,212	836,477
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	<u>1,190,714</u>	<u>1,405,859</u>
Total liabilities and stockholders' equity	<u><u>\$ 4,545,762</u></u>	<u><u>\$ 5,359,722</u></u>

H&R BLOCK**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

Unaudited, amounts in thousands, except per share data

	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
	<u>275,505</u>	<u>271,909</u>
Operating expenses:		
Cost of revenues	386,450	360,138
Selling, general and administrative	103,217	123,386
	<u>489,667</u>	<u>483,524</u>
Operating loss	(214,162)	(211,615)
Other income (expense), net	3,289	(1,355)
	<u>(210,873)</u>	<u>(212,970)</u>
Loss from continuing operations before tax benefit	(210,873)	(212,970)
Income tax benefit	(80,256)	(84,547)
	<u>(130,617)</u>	<u>(128,423)</u>
Net loss from continuing operations	(130,617)	(128,423)
Net loss from discontinued operations	(3,017)	(4,296)
	<u>\$ (133,634)</u>	<u>\$ (132,719)</u>
Basic and diluted earnings (loss) per share:		
Net loss from continuing operations	\$ (0.39)	\$ (0.39)
Net loss from discontinued operations	(0.01)	(0.02)
Net loss	<u>\$ (0.40)</u>	<u>\$ (0.41)</u>
Basic and diluted shares outstanding	334,533	327,141

H&R BLOCK**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

Unaudited, amounts in thousands

	Three Months Ended July 31,	
	2009	2008
Net cash used in operating activities	<u>\$ (454,577)</u>	<u>\$ (364,923)</u>
Cash flows from investing activities:		
Principal payments on mortgage loans held for investment, net	19,264	31,619
Purchases of property and equipment	(8,760)	(14,648)
Other, net	4,856	(901)
Net cash provided by investing activities	<u>15,360</u>	<u>16,070</u>
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	(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	<u>(216,206)</u>	<u>(70,581)</u>
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	<u>1,654,663</u>	<u>664,897</u>
Cash and cash equivalents at end of the period	<u><u>\$ 1,006,303</u></u>	<u><u>\$ 245,463</u></u>
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