



H&R BLOCK

Fiscal Second Quarter 2007 Earnings Conference Call

November 30, 2006



Conference Call Participants



Mark Ernst

Chairman and
Chief Executive
Officer



Bill Trubeck

Executive Vice
President and Chief
Financial Officer



Tim Gokey

President, Retail
Tax Services



Bob Dubrish

President, Option
One Mortgage



Forward-Looking Statements

This presentation and various comments made in connection with it include certain estimates, projections and other forward-looking statements. The words “will,” “plan,” “estimate,” “approximate,” “project,” “intend,” “remain,” “expect,” “believe,” and variations thereof and similar expressions are intended to identify forward-looking statements. These statements speak only as of the date on which they are made and are not guarantees of future performance. Actual results may differ materially from those expressed, implied or forecast in the forward-looking statements. Some factors that could cause actual results to differ include:

- The uncertainty of the entry by the company into an agreement regarding any sale or public market alternative involving the separation of Option One Mortgage Corporation
- The uncertainty regarding the completion of any such transaction
- The uncertainty that the company will achieve its revenue, earnings and earnings per share expectations for the fiscal year 2007, or any quarter thereof, and that actual financial results for fiscal year 2007, or any quarter thereof, will fall within the guidance provided by the company
- The uncertainty of the impact and effect of changes in the non-prime mortgage market including changes in interest rates, loan origination volumes, and levels of early payment defaults and resulting loan repurchases
- Changes in the company’s effective income tax rate
- Changes in market, economic, political, regulatory or competitive environments
- The inability of H&R Block’s subsidiaries to successfully expand their businesses
- Litigation involving H&R Block, Inc. and its subsidiaries
- The uncertainty of the company’s ability to purchase shares of its common stock pursuant to its Board of Directors’ repurchase authorization
- Other risks described from time to time in H&R Block’s press releases and Forms 10-K, Forms 10-Q, Forms 8-K and other filings with the Securities and Exchange Commission

H&R Block undertakes no obligation to publicly release any revisions to forward-looking statements to reflect events or expectations after the date of the presentation. H&R Block provides a detailed discussion of risk factors in periodic SEC filings and you are encouraged to review these filings.



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Mark Ernst

Chairman and
Chief Executive Officer



Option One Strategic Alternatives

- Retained Goldman Sachs to assist in considering sale/spin and other public market alternatives for Option One
- Separation will allow increased focus on core businesses and long-term value creation



Q207 Results

- Loss of \$156 mm, or \$(0.49) per share
- Continued pressures on mortgage loan volumes, gain, and loan losses
- Tax Services: higher off-season loss due to office expansion, earlier opening, focus on operational readiness
- Business Services: solid top-line results
- Consumer Financial Services: continued progress against plan



Mortgage Services



OPTION ONE
M O R T G A G E

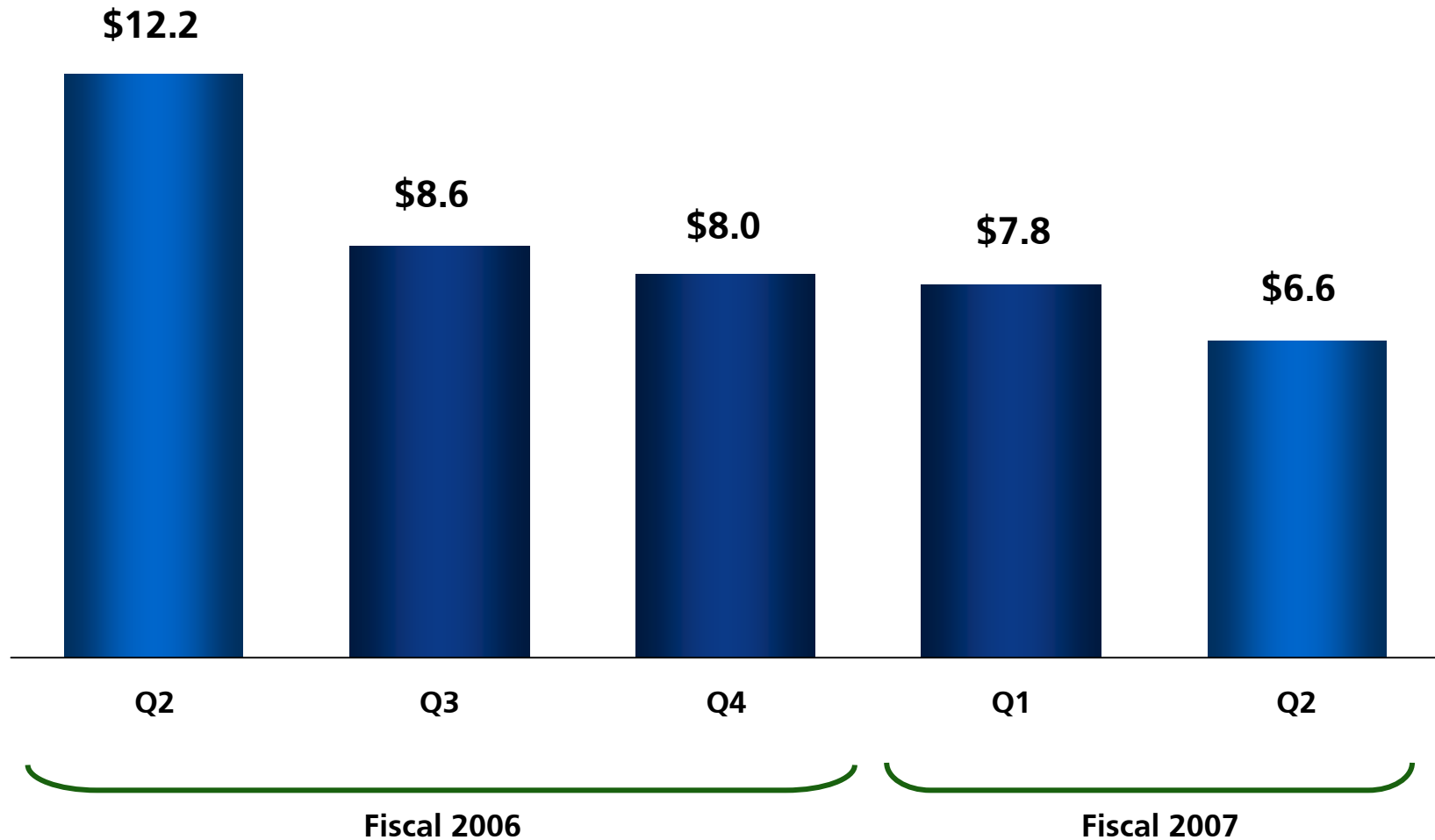


Mortgage Services Q2 Results

- Revenues \$141 mm vs. \$170 mm q/q
- Mortgage market volatility:
 - Lower origination volumes and gain on sale
 - Derivative losses
- Loan loss provision of 69 bps reflecting default rates and increased loss severity



Mortgage Services Non-Prime Loan Production



(\$ billions)



Mortgage Services Non-Prime Loan Statistics

	Sequential Comparison	
	2Q07	1Q07
Average Loan Balance	\$202,000	\$205,000
FICO Score	611	614
Loan-to-value	82%	83%
Interest Only ⁽¹⁾	14%	12%
40-Year ⁽¹⁾	31%	33%

(1) Percentage of total origination volume



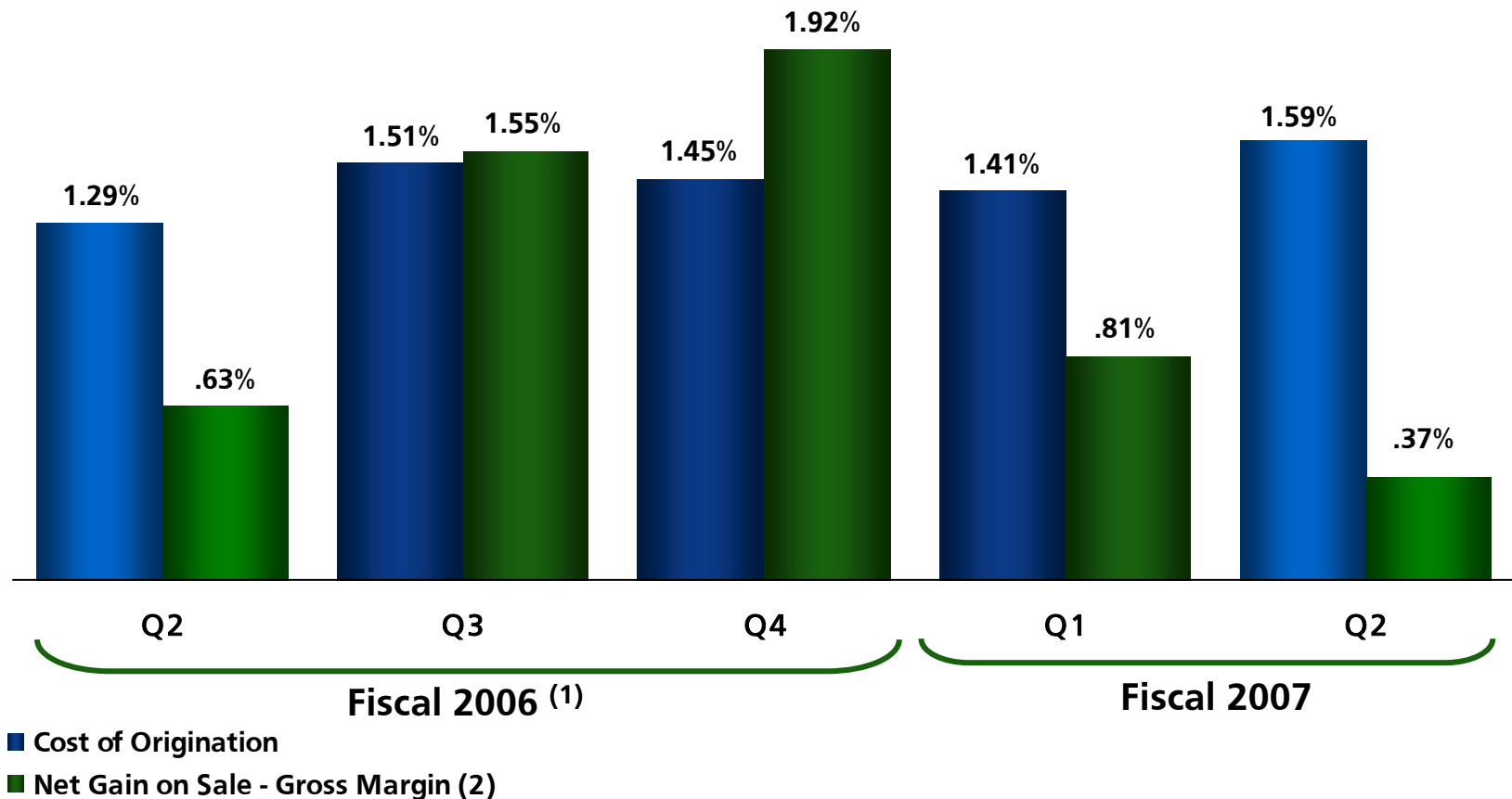
Mortgage Services Non-Prime Rate Change Summary

	2Q07	1Q07	Change
Funded WAC ⁽¹⁾	8.75%	8.68%	+7 bps
2-year Swap ⁽²⁾	5.08%	5.41%	-33 bps

(1) Weighted-average coupon charged to borrowers

(2) 2-year swap index used as a market benchmark to approximate the duration of mortgage loans

Mortgage Services Non-Prime Margin Trends



(1) Excludes FY06 restructuring charge

(2) Gain on sale of mortgage loans (including gain or loss on hedging activity, mortgage servicing rights and net of direct origination and acquisition expenses) divided by origination volume



Mortgage Services Servicing

- \$73 billion servicing portfolio at quarter-end
- Q2 revenue \$114 mm, up 4% q/q
- Q2 pretax earnings \$21 mm, down 2% q/q



Tax Services



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Tax Services Office Expansion

- On track to open 300 - 400 new traditional offices; about 75% company-owned
- Focus on enhanced client convenience and effective management of capacity



Tax Services Financial Product Improvements

- Introduced Instant Money Advance Loan (IMAL) starting late November
- New loan agreement and bank card enable a responsibly priced product to meet client needs
- 36% APR cap with Emerald Prepaid MasterCard



Consumer Financial Services



H&R BLOCK®

Consumer Financial Services Group

Investing ■ Lending ■ Banking



Consumer Financial Services H&R Block Bank

	2Q07	OTS Plan *
Annualized NIM	2.68%	2.50%
Efficiency Ratio	40%	36%
Total Assets	\$762 mm	\$1.4 billion

- Annualized return on average assets: 1.48%

* Business plan submitted to the OTS for first year of operation



Consumer Financial Services H&R Block Mortgage Corp.

	Sequential Comparison	
	2Q07	1Q07
Origination Volume	\$769 mm	\$844 mm
Average Loan Balance	\$171,000	\$175,000



Consumer Financial Services H&R Block Financial Advisors

- Advisor productivity up 4% y/y
- Slight decline in number of advisors offset by success in recruiting top producers
- Assets under administration: \$32.5 billion



Business Services

RSM McGladrey



Business Services Q207 Results

- Revenue growth: 37%
- Increased pretax loss includes Amex TBS off-season costs, declining performance in financial process outsourcing and payroll units
- Ongoing investment in brand awareness



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Bill Trubeck

Executive Vice President and
Chief Financial Officer



Balance Sheet

(\$ millions)

	2Q07	4Q06
Cash	\$442	\$694
Marketable Securities	\$76	\$16
Net Receivables	\$413	\$468
Mortgage Loans Held for Investment	\$684	\$408
Mortgage Loans Held for Sale	\$432	\$236
Beneficial Interest in Trusts	\$123	\$188
Mortgage Servicing Rights	\$270	\$272
Commercial Paper	\$1,040	- 0 -



Balance Sheet (cont.)

- Share repurchase first-half FY07:
 - Acquired 8.4 mm for \$187 mm (avg. \$22.26 per share)
 - Remaining authorization of 22.4 mm shares
- \$500 mm Senior Notes to be refinanced



FY2007 Performance Outlook Update

- Expect earnings per share of \$1.20 to \$1.45
- Excludes Option One restructuring
- Volatility driven by mortgage market
- View unchanged for other segments
- Looking forward to solid tax season



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Appendix

H&R Block Bank: Reconciliation of Non-GAAP Financial Information

(\$ thousands)

Efficiency Ratio:

	Q2 FY07	Q1 FY07
Total Consumer Financial Services expenses	\$ 119,084	\$ 116,078
Less: Non-banking expenses	(117,244)	(114,744)
Non-interest banking expenses	<u>\$ 1,840</u>	<u>\$ 1,334</u>
Total Consumer Financial Services revenues	\$ 112,444	\$ 108,298
Less: Non-banking revenues	(107,820)	(104,457)
Banking revenue	<u>\$ 4,624</u>	<u>\$ 3,841</u>
	<u>40%</u>	<u>35%</u>

Net Interest Margin:

Net interest revenue - banking	\$ 4,392	\$ 3,729
Net interest revenue - banking (annualized)	<u>17,568</u>	<u>14,916</u>
Divided by average assets	<u>\$ 656,024</u>	<u>\$ 408,117</u>
	<u>2.68%</u>	<u>3.65%</u>

Return on Average Assets:

Total Consumer Financial Services pretax	\$ (6,640)	\$ (7,780)
Less: Non-banking pretax loss	(9,060)	(8,949)
Pretax banking income	<u>\$ 2,420</u>	<u>\$ 1,169</u>
Pretax banking income - annualized	<u>\$ 9,680</u>	<u>\$ 4,676</u>
Divided by average assets	<u>\$ 656,024</u>	<u>\$ 408,117</u>
	<u>1.48%</u>	<u>1.15%</u>

Mortgage Services Operating Statistics

Origination margin (% of origination volume): ⁽¹⁾

	Q2 FY07	Q2 FY06	% Change	Q1 FY07	% Change
Loan sale premium	1.48%	0.44%	104 bpts	1.58%	(10) bpts
Residual cash flows from beneficial interest in Trusts	0.29%	0.43%		0.57%	
Gain on derivative instruments	(0.44%)	0.53%		0.16%	
Loan sale repurchase reserves	(0.69%)	(0.16%)		(1.19%)	
Retained mortgage servicing rights	0.65%	0.71%		0.64%	
	1.29%	1.95%		1.76%	
Cost of acquisition	(0.52%)	(0.88%)		(0.52%)	
Gain on sale margin	0.77%	1.07%	(30) bpts	1.24%	(47) bpts
Direct origination expenses	(0.40%)	(0.44%)		(0.43%)	
Net gain on sale - gross margin ⁽²⁾	0.37%	0.63%	(26) bpts	0.81%	(44) bpts
Other revenues	(0.05%)	0.02%		(0.05%)	
Other cost of origination	(1.19%)	(0.85%)		(0.98%)	
Net margin	-0.87%	-0.20%	(67) bpts	-0.22%	(65) bpts
Total cost of origination	1.59%	1.29%	(30) bpts	1.41%	(18) bpts
Total cost of origination and acquisition	2.11%	2.17%		1.93%	

⁽¹⁾ See reconciliation of non-GAAP financial measures in Appendix. Excludes FY06 restructuring charge.

⁽²⁾ Defined as gain on sale of mortgage loans (including gain or loss on derivatives, mortgage servicing rights and net of direct origination and acquisition expenses) divided by origination volume.

Mortgage Services: Reconciliation of Non-GAAP Financial Information

(\$ millions)

	Q2 FY07	Q2 FY06	Q1 FY07
Total Mortgage Services expenses	\$ 180	\$ 187	\$ 175
Add: Costs netted against gain on sale	61	161	75
Less:			
Cost of services	(80)	(68)	(79)
Cost of acquisition	(35)	(107)	(41)
Allocated support departments and other	(21)	(16)	(20)
Net costs to originate	<u>\$ 105</u>	<u>\$ 157</u>	<u>\$ 110</u>
Origination volume	\$ 6,620	\$ 12,191	\$ 7,792
Total cost of origination	1.59%	1.29%	1.41%



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