



| D.I. REPORT [®] | |
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| H&R Block, Inc. | |
| HRB \$14.35 | Mkt. Cap. \$4390 million |

August 25, 2011

Our Process and D.I. Rating[™]

Our process is simple. We consistently research the same 100 risk factors on each company, harvested from 5 years' of SEC filings, across the following major categories: SEC activity; accounting/auditor issues; capital markets events; stability of the board and executives, and non-SEC investigative activity.

Each D.I. Report[®] identifies and summarizes those risk factors that we believe hold the potential to destabilize a company, distract its management, and/or interfere with underlying fundamentals. Our reports otherwise take no view on a public company's fundamental outlook or whether you should buy, sell, or hold its securities. D.I. Ratings[™], range from Low to High Risk. They are based on the number, nature, and timing of the risk factors we found among the 100 we research over the most recent 5 years. Detailed, well-organized, and in-depth analyst notes are available to subscribers for each D.I. Report[®] we publish.

High Risk

It is our opinion that companies with a High Risk rating carry so much risk as to hold the potential to overwhelm underlying fundamentals.

Required Disclosure - Please see <http://www.disclosureinsight.com/disclosures.html> for certain disclosures regarding ITG Inc. (a member of FINRA and SIPC) required under NASD Rule 2711(h).

| D.I. RATING [™] | High Risk |
|---|-----------|
| <p>D.I. PROFILE[®] We are changing our rating from Medium Risk - Negative Bias to High Risk due to a recent DOJ lawsuit; an ongoing history of one-time items; increased turnover in the executive suite; and risk of undisclosed SEC investigative activity. Ongoing non-SEC investigative activity; one-time items; turnover in the executive suite and on the board; and risk of undisclosed SEC investigative activity support our opinion of a High Risk rating for HRB. HRB is subject to lingering sub-prime mortgage related issues and an ongoing investigation by the Mississippi Attorney General related to HRB's Express IRA product. In May-11, the DOJ filed suit against HRB to block the acquisition of 2SS Holdings, Inc. This litigation is ongoing. HRB has impaired \$45.6 million of goodwill. There have been 4 CEO changes and 4 CEOs, 3 CFOs, and 3 principal accounting officers. In May-11, William Cobb was named CEO. In addition to 3 pending departures, there have been 10 director departures and 3 chairmen. A response we received from the SEC to a Freedom of Information Act request indicated the risk of undisclosed SEC investigative activity as of 22-Aug-11.</p> | |
| <p>SEC Activity: A response we received from the SEC to a Freedom of Information Act request indicated the risk of undisclosed SEC investigative activity as of 22-Aug-11. Comment letters are available from 4 SEC reviews. The <u>first review</u> (5-May-06 to 23-Aug-06), pertaining to the FY05 10-K/A and 1Q06 - 3Q06 10-Qs, raised issues on valuation of mortgage servicing rights and errors that caused restatements. The <u>second review</u> (24-Aug-07 to 29-Aug-07) pertained to a proxy filed 22-Aug-07. Issues raised included the disclosure which directly or indirectly impugns character, integrity or personal reputation, or directly or indirectly makes charges concerning improper, illegal or immoral conduct or associations without factual foundation. The <u>third review</u> (29-Feb-08 to 13-May-08) pertained to the FY07 10-K. Issues raised included the presentation of material risk; material legal proceedings; and disclosure of performance targets. The <u>fourth review</u> (12-Oct-10 and 14-Jan-11) pertained to the 2010 10-K and 1Q11 10-Q. The review raised issues related to discussion of the description of the financial commitments related to discontinued mortgage operations; accounting policy for recording gain on sale of franchise operations if the sale qualifies as a divestiture; and disclosure regarding repurchase reserves for various representations and warranties.</p> | |
| <p>Accounting/Auditor: HRB disclosed an internal review in Jan-07 regarding Option One Mortgage Corp. (OOMC, HRB's subsidiary engaged in sub-prime mortgage business) and the fair value of its obligations under its warehouse facilities. No details were found on the results of this review. In Mar-07, HRB disclosed ineffective internal controls as of 31-Jan-07 due to a</p> | |

material weakness in financial reporting related to the valuation of certain residual interests in securitizations. HRB's internal controls were reported effective as of 30-Apr-07. Delayed filings in Jul-05, Mar-07, and Dec-07 were caused by lease reviews, OOMC reviews, and the transition to the most recent auditor, respectively. HRB recorded \$51.1 million of restructuring charges due to employee reduction plans and goodwill impairment of \$45.6 million. In Sep-07, KPMG was dismissed following the appointment of 2 directors to the HRB board whose appointments would impair KPMG's independence. Deloitte & Touche has been HRB's auditor since Oct-07.

Executive Suite: There have been 4 CEO changes and 4 CEOs, 3 CFOs, and 3 principal accounting officers (PAOs). In Nov-07, CEO Mark Ernst (since 2001) resigned and Alan Bennett began serving as interim CEO. In Aug-08, Russ Smyth was appointed CEO. In Jul-10, CEO Smyth resigned to accept a CEO position at another company and was succeeded by Bennett. In May-11, Bennett retired as the CEO and was succeeded by William Cobb. In Nov-07, William Trubeck (CFO since 2004) resigned and Becky Shulman was appointed acting CFO. In Mar-08, Shulman was appointed CFO. In Apr-10, CFO Shulman resigned. Jeffrey Brown (PAO since 2008) was appointed interim CFO and permanent CFO in May-10 and Sep-10, respectively. In Mar-08, Jeffrey Nachbor (PAO since 2005) resigned and was succeeded by Jeffrey Brown. In Sep-10, PAO Jeffrey Brown was promoted to CFO and succeeded as PAO by Colby Brown.

The Board: In addition to 3 pending departures, there have been 10 departures and 3 chairmen. In Nov-07, Chairman Mark Ernst (then age 49) resigned from the board concurrent with the appointment of Richard Breeden as Chairman. In Apr-11, Breeden (then age 61, a member of the nominating committee) resigned from the board. Subsequently, Robert Gerard was elected Chairman. In Sep-07, Louis Smith (then age 64, Chairman of the audit committee, a member of the nominating committee), Rayford Wilkins (then age 55), and Donna Ecton (then age 60) were not re-elected at the 2007 annual meeting. In Nov-07, Jerry Choate (then age 68, a member of the audit and compensation committees) resigned due to health reasons. In Sep-08, Roger Hale (then age 65) and Henry Frigon (then age 73) did not stand for re-election at the 2008 annual meeting. In Jul-10, Russell Smyth (then age 53) resigned. In Sep-10, Thomas Bloch (then age 56) did not stand for re-election at the 2010 annual meeting. In Apr-11, HRB disclosed that Alan Bennett (then age 61) does not intend to stand for re-election to the board at the annual meeting to be held in Sep-11. In Jul-11, HRB disclosed the same regarding Len Lauer (then age 54, a member of the compensation committee) and L. Edward Shaw (then age 67, a member of the compensation and nominating committees).

Capital Markets: There has been at least one business acquisition (which involved an earn-out) and 2 asset acquisitions for a total of \$441 million, of which \$45 million was allocated to goodwill. In Oct-10, HRB signed an agreement to acquire 2SS Holdings (developer of TaxACT) for \$288 million. In May-11, the DOJ filed a civil antitrust lawsuit in order to block the proposed acquisition. There have been 2 instances of stock price volatility >10% in the last year.

Although its mortgage loan origination activities were terminated and the loan servicing business was sold during FY08, HRB remains subject to investigations, claims, and lawsuits pertaining to its loan origination and servicing activities prior to such termination and sale. The investigations, claims, and lawsuits, which include actions by state attorneys general, other state and federal regulators, municipalities, and individual plaintiffs, allege discriminatory or unfair and deceptive loan origination and servicing practices. HRB continues to disclose that in the current non-prime mortgage environment, the number of these investigations, claims, and lawsuits has increased over historical experience and is likely to continue at increased levels.

Non-SEC Investigative Activity and Reviews: In Mar-06, the NY Attorney General initiated a lawsuit against the company alleging fraudulent business practices, deceptive acts and practices, common law fraud, and breach of fiduciary duty with respect to its Express IRA product. The NY Attorney General suit appears over. The Mississippi AG also filed a similar lawsuit in Jan-08, which was ongoing as of the 10-K filed 23-Jun-11.

In Oct-10, HRB signed an agreement to acquire 2SS Holdings Inc. In May-11, the DOJ filed a civil antitrust lawsuit against the proposed acquisition. The DOJ lawsuit appear ongoing as of the 10-K filed 23-Jun-11.

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| Are conference calls routinely held? | Yes | Is there a small float? (<50% of shares outstanding.) | No |
| Are there multiple classes of stock? | No | Is revenue concentrated/otherwise not meaningful? | No |
| Is this a controlled company? | No | Were noteworthy related party transactions found? | No |

This D.I. Report® represents the summation of 100 separate risk factors we analyzed over a 5-year period.

The in-depth analyst notes used to produce this report are available to clients on our website.

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High Risk: It is our opinion that companies with a High Risk rating carry so much risk as to hold the potential to overwhelm underlying fundamentals.

Medium Risk - Negative Bias: Companies with a Medium Risk rating have at least one risk factor that concerns us. We assign a Negative Bias to the Medium Risk rating to those companies that in our opinion carry sufficient risk that the rating could deteriorate to High Risk. The Medium Risk - Negative Bias rating can also be assigned to those companies previously rated as High Risk that have shown some improvement, albeit not enough to yet warrant a lower risk rating as they could just as easily become High Risk again.

Medium Risk - Positive Bias: Companies with a Medium Risk rating have at least one risk factor that concerns us. We assign a Positive Bias to the Medium Risk rating for those companies that in our opinion carry at least one risk factor that could potentially deteriorate into a higher risk challenge. The Medium Risk - Positive Bias rating can also be assigned to those companies previously rated as carrying higher risk, but have shown sufficient improvement.

Low Risk: Companies with a Low Risk rating carry a low risk profile. In our opinion, the nature and timing of the risk factors we found do not concern us at the time of report publication.

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