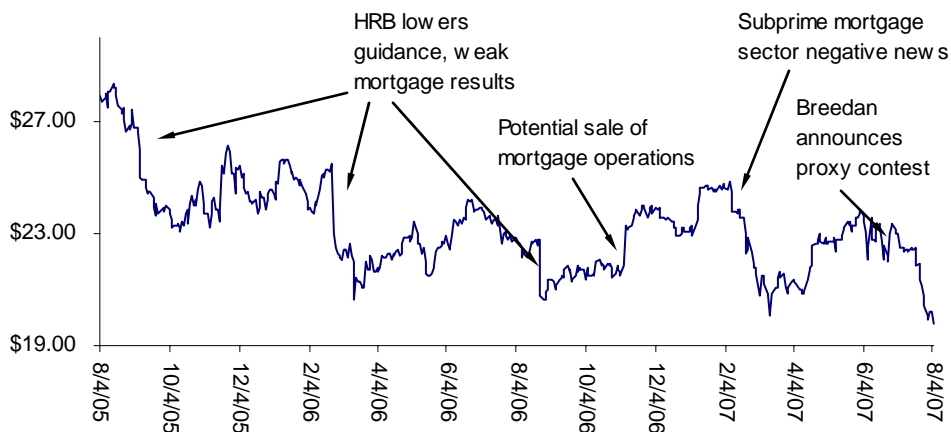


Issuer: H&R Block (HRB) Proxy Fight with Breeden Partners
Date: August 21, 2007

Dissident 14A Date	July 31, 2007	Seats at Risk	3 of 11
Meeting Date	Sept. 6, 2007	Record Date	July 5, 2007
Company	H&R Block	Dissidents	Breeden Partners
GICS Sector	2530 Consumer Services		

HRB Annotated Share Price Performance



Executive Summary – Vote FOR the Dissident Slate

We conclude that the company’s long-term underperformance can be traced to either a failed diversification strategy or poor execution. Of course, companies should be free to test out new concepts and need not bat 1,000 when taking risks. However, it appears that HRB has batted below the “Mendoza line” when it comes to its diversification strategy. While the company already is trying to divest its troubled mortgage unit (some would argue a day late and a dollar short), we believe that the company will continue to face other challenges, including what to do about the poorly performing brokerage unit, whether the benefits of the bank outweigh the drawbacks and the continued competitive pressure in the core tax prep business. A new shareholder perspective on the board should help to meet these challenges.

We believe Breeden’s role as KPMG’s monitor should be put into perspective as it relates solely to KPMG’s tax practice. Further, Breeden is a former SEC chairman who has built a reputation for integrity that significantly mitigates any incentive for him to misuse his monitor position. In the worst case scenario, KPMG ultimately could decide to resign as the company’s auditor. In our view, however, any cost or disruption resulting from such a resignation has to be weighed against the opportunity cost of failing to affect needed board change. We believe that, given the company’s long-term underperformance and questionable decision making, the board issue outweighs the potential auditor issue.

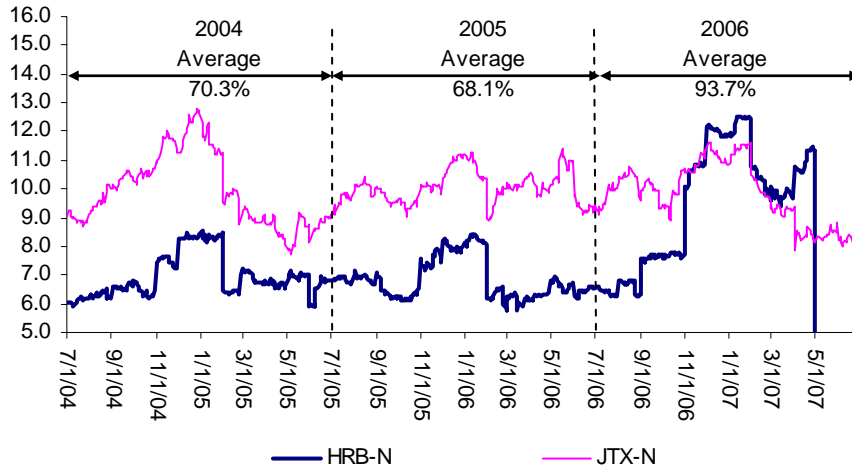
Based on the factors discussed below, on balance we conclude that the presence of the dissidents on the HRB board would likely prove beneficial to long-term shareholder value. The long-term financial and operational performance of the company and the dissidents’ skill sets and track record establish both the need for change and the dissidents’ ability to effect change.

Trading Comps

Company	Ticker	Market Cap	Enterprise Value	EV /					Price /			LT Growth	2007 PEG
				LTM EBITDA	LTM Sales	2007 Sales	2007 EBITDA	2008 EBITDA	LTM EPS	2007 EPS	2008 EPS		
JTX	JTX-N	\$899.2	\$1,024.5	8.0x	3.5x	3.3x	7.9x	7.7x	14.3x	12.9x	12.1x	13.3%	0.9x
H&R Block	HRB-N	6,396.5	7,326.8	9.8	1.7	1.6	8.3	7.7	NM	14.9	13.3	12.3	1.2

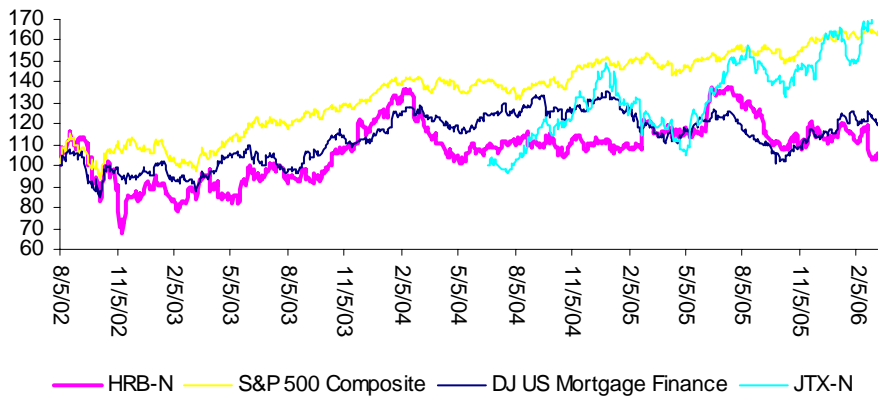
Source: Thomson One; Data as of Aug. 13. Calendar years. EBITDA excludes mortgage operations.

EV/Forward EBITDA



Source: Thomson One. HRB's ratios since late 2006 exclude the negative results from the mortgage operation and are therefore overstated.

Total Return vs. Index & Peers



Source: Thomson One

Financial Performance

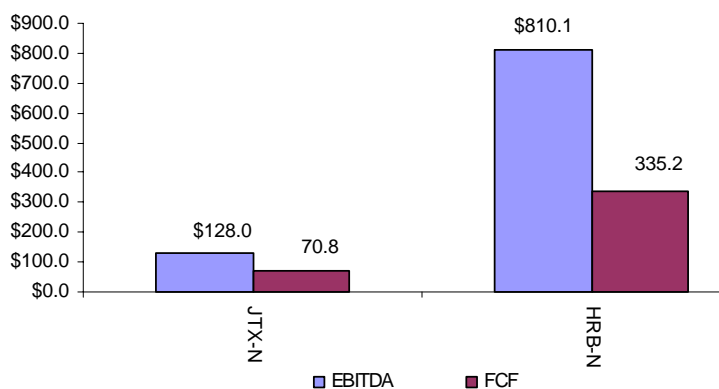
HRB Historical Financials

	2002	2003	2004	2005	2006	2007	5-Year CAGR
Revenue	\$ 3,317.7	\$ 3,731.1	\$ 4,247.9	\$ 4,432.3	\$ 4,906.9	\$ 4,021.3	3.9%
Net Income	434.4	477.6	709.2	635.9	490.4	(433.7)	-200.0%
Ebitda	987.0	1,212.7	1,473.2	1,332.5	1,306.9	810.1	-3.9%
FCF	630.0	541.0	728.6	304.3	335.2	(745.8)	-203.4%
EPS	1.16	1.30	1.98	1.88	1.47	(1.33)	-202.9%
Gross Margin	46.8%	52.9%	54.7%	51.5%	47.9%	41.4%	-2.4%
Operating Inefficiency	8.1%	20.4%	20.0%	21.5%	21.2%	21.2%	21.3%
Debt/EBITDA	0.9x	0.7x	0.5x	0.7x	0.7x	2.7x	23.8%

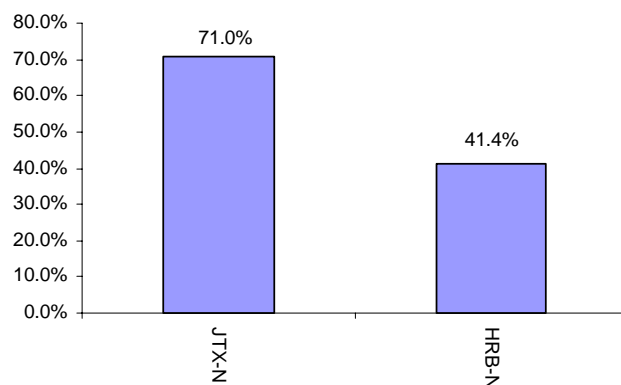
Note: EBITDA excludes discontinued operations (mortgage business) in 2007.

Source: Thomson One

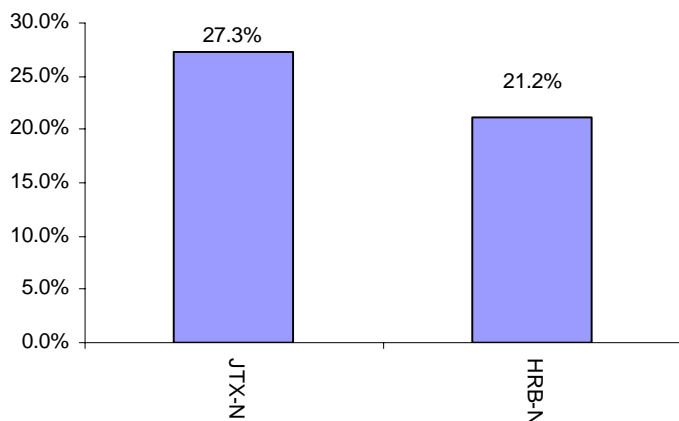
EBITDA & FCF



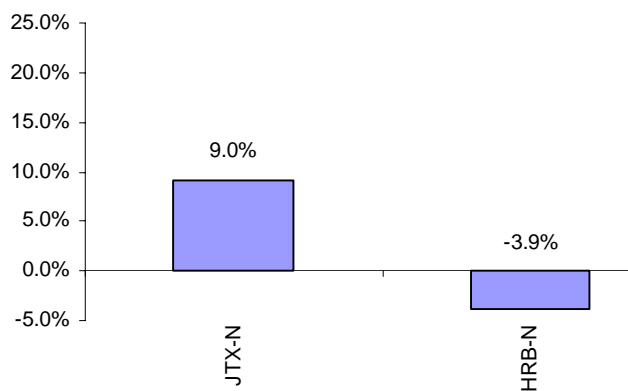
Gross Margin



Operating Inefficiency



EBITDA 5-Year CAGR



Source: Thomson One; Financial data as of FY2007; EBITDA defined as Operating Income plus D&A, excluding discontinued operations (mortgages); FCF defined as Cash Flow from Operating Activities minus CAPEX; EBITDA margin defined as EIBTDA over Sales; Operating Inefficiency defined as SG&A over Sales

Major Shareholders

H & R Block Inc Top 15 Holders

Rank	Investor Name	% O/S	% Change	Market Value of Position
1	Davis Selected Advisers, L.P.	11.69	-0.34	\$736.5
2	T. Rowe Price Associates, Inc.	9.92	0.30	\$624.7
3	Harris Associates L.P.	6.69	-0.04	\$421.6
4	Ariel Capital Management, LLC	4.84	-3.26	\$304.8
5	Jennison Associates LLC	3.93	2.80	\$247.9
6	Fidelity Management & Research	3.82	91.44	\$240.6
7	Vanguard Group, Inc.	3.61	5.28	\$227.2
8	Barclays Global Investors, N.A.	3.28	-0.64	\$206.7
9	State Street Global Advisors (US)	2.76	0.54	\$173.7
10	Goldman Sachs Asset Management (US)	2.57	47.19	\$161.8
11	Breeden Capital Management LLC	1.84	57.07	\$115.7
12	Brandes Investment Partners, LP	1.59	-0.37	\$99.9
13	AIM Management Group, Inc.	1.48	-0.26	\$93.3
14	Northern Trust Investments, N.A.	1.26	62.48	\$79.5
15	Gardner Russo & Gardner	1.26	0.16	\$79.3

Source: Thomson One; \$ in millions; % O/S reflects positions according to latest public filings, 7% of which were as of Sept 07, 91% as of Jun 07; market value of position based on Aug. 17 share price.

Introduction

Background

H&R Block (HRB) provides tax services for individuals, tax services and consulting for small and medium businesses, retail mortgages and consumer financial products. The Tax Services segment, its largest operation, provides tax return preparation and related products and services, as well as digital tax preparation alternatives. The company is the largest provider of this service in the United States.

The following is a chronological list of key developments:

- Sept. 2005 HRB announces weak results in its mortgage operation, a situation that was repeated in February and August 2006
- Nov. 2006 HRB announces potential sale of its mortgage operations
- Feb. 2007 News of subprime mortgage defaults at major players
- June 27 Breeden Partners nominates three dissident candidates
- Aug. 13 HRB announces intention to declassify the board by year end
- Aug. 13 Harris Associates L.P. (6.76% of shares outstanding) files 13D supporting Breeden nominees

Please note: In preparation for this analysis, ISS met or spoke with members of the HRB management team and board, the dissident candidates and major HRB shareholders.

The Dissident Platform

The dissidents are seeking the election of three nominees to the eleven-member board.

Breeden began buying shares in HRB in Nov. 2006 and estimate that its weighted average cost basis is approximately \$23.30 per share.

If elected, the dissident nominees will:

- consider divesting H&R Block Bank, which imposes restrictions on the company's capital structure;
- consider divesting the brokerage business, which generates unacceptable results;
- focus on expanding margins and maximizing cash flow in the tax-related business where the company has a competitive advantage; and
- improve corporate governance by declassifying the board, adopting a maximum 12-year tenure for directors, establishing stringent performance goals to hold senior management accountable and aligning compensation with performance.

Because HRB has a staggered board, only three seats are up for election. If the dissidents win, they will control 27% of the board.

The Company's Defense

The company argues it is taking steps to focus on its core tax business by divesting its mortgage operations. The board believes that bank creates a competitive advantage for the company's core tax business, particularly in the "early filer" segment. HRB believes that Breeden's slate would not bring any new ideas to the table and that Breeden's presence on the board will risk auditor independence.

Framework of ISS Proxy Contest Analysis

When analyzing proxy contests, ISS focuses on two central questions: (1) Have the dissidents met the burden of proving that change is warranted at the company? and (2) If so, will the dissidents be better able to effect such change versus the incumbent board?

When the dissidents are seeking board control, ISS will require from the dissidents a well-reasoned and detailed business plan (including the dissidents' strategic initiatives), a transition plan that describes how the change in control of the company will be effected, and the identification of a qualified and credible new management team. ISS will compare the detailed dissident plan against the incumbents' plan and the dissidents' proposed board and management team against the incumbent team in order to arrive at our vote recommendation.

When the dissidents are seeking a minority position on the board, the burden of proof we impose on the dissidents is lower. In such cases, ISS will not require from the dissidents a detailed plan of action, nor will we require that the dissidents prove that their plan is preferable to the incumbent plan. Instead, ISS will require that dissidents prove that change is preferable to the status quo and that the dissident slate will add value to board deliberations by considering the issues from a different viewpoint than the current board members.

Question #1: Is Change Needed?

HRB Performance

The Breeden Challenge

The dissidents note that during the five years ended August 6, 2007, the company underperformed the S&P 500 by 88%, implying that shareholders missed out on more than \$7.6 billion in value. According to the dissidents, this underperformance has been the result of a failed diversification strategy and poor board oversight of management.

Breeden argues the company's tax services business has suffered from "neglect and lackluster operating performance despite positive industry trends," having exhibited a shrinking Ebit margin since 2003. Since 2002, the number of taxpayers using paid tax preparation services in the US has increased by 10 million, while HRB lost 1.2 million customers. During this period, Jackson Hewitt (JTX), the second largest company in the sector with only 1/10th of HRB's revenues, grew its customer base by 45%.

Breeden notes that HRB has spent nearly \$2 billion in acquisitions and capex on tangential businesses with low or negative ROIC. The company's mortgage operation has recorded a pre-tax loss of nearly \$1 billion, and HRB continued generating almost \$2 billion in mortgage loans per month in the first quarter of this year.

The dissidents argue that the company has generated poor results in its retail brokerage business (\$407 million in losses since 2000) and that this business (OLDE Financial) was acquired at an inflated price of 29x earnings in 1999. As such, the company should consider divesting this unit.

Breeden also notes that the company has been lowering guidance consistently since 2005, and later missed that guidance by a significant margin.

The HRB Response

The company argues the company's recent performance is heavily influenced by the subprime mortgage sector woes and competitive pressure in the early filer tax services segment.

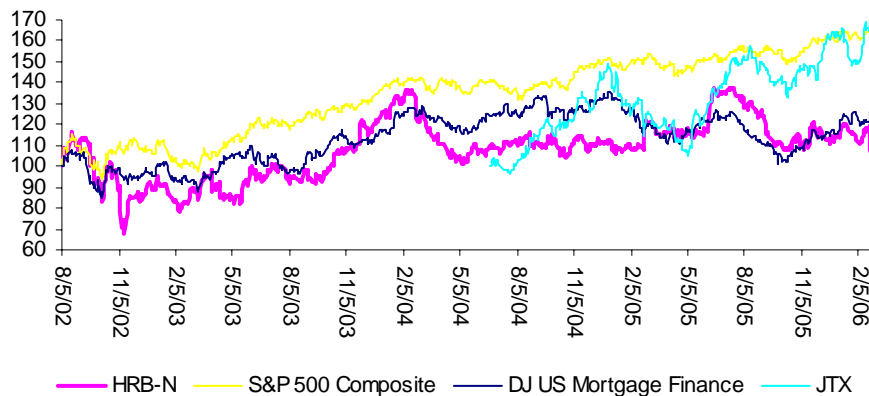
HRB notes the solid growth in its tax services business in FY2007 (+9.6%), which it claims is at least partially driven by the introduction of the bank. Additionally, the company notes its consumer financial services division has shown positive margins after five years of pre-tax losses.

ISS Analysis – HRB Performance

Share Price Performance

Over the past five years, the company's shares have underperformed the S&P 500 index by 92%. Since June 2004 (the IPO of JTX), HRB has underperformed its direct competitor by approximately 80%. The company has also underperformed the DJ US Mortgage Finance Index.

HRB 5-Year TSR vs. Peers and Index



Financial Performance

While the subprime mortgage sector woes certainly have contributed to the company's recent underperformance, we agree with the dissidents that HRB's problems go beyond its mortgage unit. We note that JTX has been able over the past five years to increase revenues at a CAGR of 16%, while improving operating margin from 28% to the current 40%. This compares to a growth rate of 7% for HRB and a margin that has slightly deteriorated. We note that HRB can be expected to have a lower operating margin versus JTX as HRB owns approximately 66% of its retail offices, as compared to only 11% for JTX.

HRB Financial Metrics

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	5-Year CAGR	% of Revenues 2007
Revenues:	2,582,846	2,581,046	2,924,171	3,174,001	3,574,753	4,021,274	9.3%	
Tax Operations	1,909,462	1,946,763	2,191,177	2,358,293	2,449,751	2,685,858	7.1%	66.8%
Business Services	416,926	434,140	499,210	573,316	828,133	932,361	17.5%	23.2%
Consumer Financial	250,685	200,794	229,470	239,244	287,955	388,090	9.1%	9.7%
Corporate	5,773	(651)	4,314	3,148	8,914	14,965	21.0%	0.4%
Pre tax earnings (Loss):	377,452	293,127	480,467	521,622	510,482	635,798	11.0%	
Tax Operations	540,561	557,542	637,387	663,518	590,089	705,171	5.5%	
Business Services	22,716	(14,118)	19,321	29,871	70,661	57,661	20.5%	
Consumer Financial	(54,862)	(128,292)	(68,573)	(75,370)	(32,835)	19,811	-181.6%	
Corporate overhead	(130,963)	(122,005)	(107,668)	(96,397)	(117,433)	(146,845)	2.3%	
Margins								
Tax Operations	28.3%	28.6%	29.1%	28.1%	24.1%	26.3%		
Business Services	5.4%	-3.3%	3.9%	5.2%	8.5%	6.2%		
Consumer Financial	-21.9%	-63.9%	-29.9%	-31.5%	-11.4%	5.1%		
Corporate overhead	-5%	-5%	-4%	-3%	-3%	-4%		

The company's consumer financial services segment (the brokerage business plus the bank) has shown losses for the past five years. While retail brokers like Charles Schwab and E*trade financial operate with pre-tax margins of 20% or higher, this segment has achieved only a 5% margin after including the bank results.

In sum, we conclude the company has underperformed over the long term, above and beyond the company's recent difficulties arising from its mortgage business.

HRB Operational Strategy

The Breeden Challenge

Breeden argues HRB should focus on its core tax business, while considering divesting its banking and brokerage operations. The dissidents note the company has a track record of diversifying away from its core business, investing in segments where it lacks competitive positioning, scale and brand equity.

Breeden notes that the products provided by the bank could have been launched through partnerships with financial institutions, which have scale and expertise. Moreover, the bank imposes severe restrictions on the use of capital. By creating a bank, the company has effectively given up control of its balance sheet to bank regulators. The dissidents believe that this was a mistake given that share buybacks are relevant to investors in a mature business like tax services.

The dissidents also note the brokerage business lacks critical mass and is likely to continue generating unacceptable returns on capital. The company has operated this business for years without results, and potential synergies with the tax operations are doubtful.

Breeden proposes that the company focus on its tax business, as an improvement of performance in this segment would allow the company to implement share buybacks.

The HRB Response

The company argues that is taking the necessary steps to focus on its core tax, accounting and related financial services business. The focus going forward will not be in diversification, but to differentiate their tax services.

The board believes that the bank creates a competitive advantage for the tax business, in particular for early filers, a segment that represents approximately 40% of the earnings of the tax business and a key driver of the company's profitability. The bank allows HRB to have a proprietary product manufactured to its specifications and that can be taken to market faster. HRB claims to have approached other institutions which ultimately were unwilling to tailor a product to the company's specifications.

The company notes it has already divested unprofitable units of its business services business and that it is on track to sell its Option One mortgage unit by year end, while admitting to us that in hindsight the company should have proceeded with the sale of the mortgage business earlier.

HRB expects the turnaround in its results to continue in 2008 and that the company will be positioned to implement share repurchases. Therefore, management claims that the dissidents have not offered any new ideas or a plan to improve value.

ISS Analysis – HRB Operational Strategy

HRB states that the company focuses on a "core tax, accounting and related financial services business." We find that statement may have proven to be too elastic, as it has justified the company testing the waters in non-tax businesses for which core skills appear to have been lacking.

It does not appear that the company's strategy of diversification has resulted in the hoped-for synergies. Of course, companies should be free to test out new concepts and need not bat 1.000 when taking risks. However, it appears that the company has batted below the "Mendoza line" when it comes to its diversification strategy.

One could question whether the mortgage business success of the past was the result of synergies with the tax business, as a significant portion of originations were made through brokers, not the company's tax offices. If HRB wants to take credit for the historical success of the mortgage business, it cannot subsequently play down the segment as not part of its "core" when it hits a rough patch.

(We also note that companies like Capital One have recently announced that they are shutting down their mortgage businesses. HRB needs to determine whether a sale is still preferable to a cessation of operations.)

Similarly, the brokerage business has generated poor or negative results for years. Some industry analysts question the synergies with the tax business and note the potential for brand conflict between a bank directed toward low-income clients and a brokerage business oriented toward middle- and high-income clients. We believe that after eight years in the brokerage business, either synergies exist but the execution has been poor, or they do not exist and the board should have corrected course earlier.

Continuing on its diversification path, the company launched the bank in 2006. Breeden and analysts at Morgan Stanley and UBS question the rationale for the venture and note the downside of capital structure limitations. We do not opine on whether the bank should be continued. However, we believe that given the poor track record of the company's diversification strategy, the board should continue to seriously assess its benefits against its drawbacks.

In sum, we conclude that the company has made some key operational missteps over recent years, which calls into question the adequacy of the board's oversight of management and strategy.

HRB Corporate Governance

The Breeden Challenge

The dissident claims that a major problem at HRB is the lack of management accountability. To tackle this problem, Breeden proposes to establish stringent performance goals and standards and to hold management accountable for operational performance and capital allocation.

Breeden also proposes a maximum tenure of 12 years for directors, as a measure to help ensure independence from management. There are three HRB directors who currently exceed that 12-year tenure limit.

Breeden dismisses the argument that there is a potential conflict of interest given its position as a an independent, separate DOJ-appointed monitor at KPMG, the company's auditor, in connection with a deferred prosecution agreement stemming from tax shelter abuses. Breeden notes that his role at KPMG relates to its tax practice and compliance systems, not its audit business. It is the DOJ, not Breeden who serves as a mere observer, who makes the decisions.

Breeden notes that he served as member of the board and audit committee of MCI while KPMG was an audit firm for that company, and KPMG did not express any issue regarding its independence.

Even if KPMG were to resign, the dissident notes the company could publish its next 10Q in early September (prior to the shareholder vote), and then the company would have adequate time to find a new auditor before the next audit is needed in 2008. The

dissidents have publicly committed to not sit on the company's audit committee while the KPMG monitorship is still in existence.

The HRB Response

HRB argues that 9 of its 11 members are independent. In addition, the company recently announced its intention to ask shareholders to declassify the board.

The board believes Breeden and its nominees pose a grave risk to HRB by potentially causing KPMG to resign as the company's auditor. The company notes that even though Breeden is not an officer or director of KPMG, he is in a position of power at the firm. While the DOJ apparently believes there is no conflict, its opinion is irrelevant – the only opinions that matter are the company's audit committee, the SEC and KPMG itself. If KPMG were to resign, HRB would be forced to undergo a costly and disruptive mid-year change in auditors, a troubling prospect for a company with a complex business which is in the process of selling its mortgage business.

ISS Analysis – HRB Corporate Governance

We believe this proxy contest is not driven by specific corporate governance issues, but instead rests on an evaluation of a board that arguably has been complacent in its oversight of management, despite the board's formal independence.

We commend the company for the declassification of the board, but we believe an 11th hour reactive step, while clearly beneficial for HRB shareholders, arguably supports the need for a continued presence of the dissidents on the board.

We discuss the KPMG issue below.

ISS Conclusion – Is Change Needed?

After evaluating the dissident and incumbent arguments with respect to the company's financial and shareholder return performance, strategic track record and governance profile, we conclude the dissidents have met their burden of proving that board change is warranted.

Question #2: Will the Dissidents Add Value?

The Dissident Slate

The three dissident candidates are:

- **Richard C. Breeden.** Former Chairman of the SEC. Has served as a corporate monitor in high profile reorganizations like that of Worldcom. Breeden is director of BBVA and Applebee's.

- **Robert A. Gerard.** Former Assistant Secretary of the US Treasury Department and partner of Dillon Read, Bear Stearns and Morgan Stanley. Gerard is a senior advisor and member of the Investment Committee of Breeden Capital Management LLC.
- **L. Edward Shaw, Jr.** Former general counsel for Aetna and Chase Manhattan Bank. Shaw helped Aetna in its turnaround starting in 1999. He is currently director of Mine Safety Appliances and HealthSouth, and a Senior Managing Director at Breeden & Co.

Breeden argues that there are an insufficient number of incumbent directors with significant experience in securities brokerage, banking and capital markets, notwithstanding the expenditure of billions of dollars in these areas. The dissidents nominees believe they would provide much needed oversight of management's performance, and reevaluate strategy without being inhibited by prior decisions.

The dissidents believe Shaw would be of significant assistance in helping the board evaluate the merits of various banking strategies and approaches to minimizing regulatory burdens, while Gerard would assist in a determination whether to reform or sell the financial advisory business and issues related to the subprime mortgage exposure.

The incumbents, on the other hand, describe the dissident slate as significantly conflicted given Breeden's role as KPMG monitor and the association of the other two candidates with Breeden. Additionally, they point out that Breeden owns less than 2% of HRB and seeks to replace more than 25% of the board members.

The Incumbent Slate

The three incumbents up for election include:

- **Donna R. Ecton.** Management consulting and consumer products expertise (former COO of PETsMART).
- **Louis W. Smith.** Technology and manufacturing expertise at AlliedSignal.
- **Ray Wilkins, Jr.** Telecommunications expertise (Group president, AT&T Inc., and former president and CEO of Pacific Bell Telephone Company and Nevada Bell Telephone Company).

The eight incumbent directors not up for election include Thomas M. Bloch (ex-CEO of HRB), Mark. A. Ernst (CEO), David Baker Lewis (CEO of a law firm), Tom D. Seip (retail brokerage and investment expertise), Jerry D. Choate (insurance expertise.), Henry F. Frigon (consumer products and services expertise), Roger W. Hale (telecommunications expertise), and Len J. Lauer (telecommunications expertise).

Collectively, these eight continuing directors currently sit on ten public boards. Three are relative newcomers to the board, having arrived since 2004.

The dissidents describe the incumbent slate as lacking necessary experience in banking and capital markets.

Breeden also notes that his fund owns close to ten times the number of shares the incumbents do, therefore assuring alignment of its interests with other shareholders.

ISS Analysis – Will the Dissidents Add Value?

Skill Set

According to ISS classifications, 9 of 11 directors are technically independent. We note, however, when analyzing proxy contests ISS will more closely examine the underlying facts and circumstances, including an examination of more qualitative factors, to determine how well the board has functioned as a whole.

The incumbent slate lacks financial services expertise. By contrast, the dissident nominees have significant relevant experience in financial services, exactly the industry segment that the company has attempted to diversify into over the past few years.

Track Record

We believe that HRB's performance and strategic decisions tend to indicate that the board has not adequately overseen management. The three incumbent nominees have between a 7 to 14 year tenure, and therefore cannot escape the accountability issue.

While having an impressive track record as an advocate for good corporate governance, Breeden's track record as an activist investor is a short one. Breeden Partners was started less than two years ago, and its only involvement in a proxy fight was at Applebee's, a fight that was ultimately settled before a vote. While it's still too early to judge the impact and style of Breeden, it claims its involvement in APPB was a success (with a return on investment close to 30%) by its facilitation of the company's recent sale to IHOP.

Despite this lack of track record as investor, we note Breeden's achievement in restoring trust in MCI as a corporate monitor appointed just a few days before MCI's predecessor, WorldCom, filed for bankruptcy. Breeden can probably claim some credit for the \$10.4 billion increase in MCI enterprise value within two years of his appointment. He also played an active role in repairing Hollinger and restoring that company's stock value as a monitor appointed by the SEC in 2003.

We recognize that Breeden's experience as government appointed monitor does not equate to experience as a shareholder representative on a board. However, we believe his track record is sufficient for the minority stake he's seeking at HRB. The fact that the company's stock price increased by 4.5% upon news of Breeden's proxy filing seems to indicate at least some market confidence in the dissident. Breeden claims it has a long-term investment horizon, and notes its fund is a long-only vehicle.

Downside of Dissident Representation

In this proxy contest, the company is not questioning the integrity of the dissidents or its investment style. The company's CEO has, however, raised publicly the specter of a

potential conflict of interest due to Breeden's position overseeing KPMG. We believe Breeden's role as KPMG's monitor should be put into perspective as it relates solely to that firm's tax practice. Further, Breeden is a former SEC chairman and has built a reputation for integrity that significantly mitigates the incentive to misuse his position.

While KPMG could potentially resign as HRB's auditor, any cost or disruption has to be weighed against the opportunity cost of not changing the board's composition. We believe that, in this case, given HRB's poor long-term returns, these concerns should take second priority. Moreover, the dissidents own six million shares of HRB stock, which implies they see little potential for long-term value destruction from a potential auditor resignation.

While Gerard and Shaw both do work for Breeden's firms, we note Gerard is not an employee, but an advisor, who was hired to provide an independent voice on the firm's investment committee. Shaw professes to be a "part-time" employee of Breeden who has invested in the fund. After meeting with Gerard and Shaw, we believe that – despite their relationship with the activist investor – given their respective backgrounds, reputations and current roles, neither nominee is likely to be beholden to Breeden and each should be able to exercise independent judgment. We note that all of the dissident candidates are lawyers who should be highly cognizant of their fiduciary duties to all shareholders.

When deciding how many dissident nominees to support, it is important to understand board dynamics. A single dissident on a large board is unlikely to have much of an effect on board deliberations and obviously would have little impact from a voting perspective. A more substantial minority position helps achieve the purpose of supporting the dissidents in the first place: providing a significant alternative voice on a board where shareholders have concluded change is warranted. As such, we recommend shareholders support all three dissident candidates.

We note that our recommendation is not intended to specifically rebuke the three incumbent candidates up for election. Unfortunately, due to the staggered board structure, HRB shareholders have no choice but to evaluate the desirability of the dissident slate against the three incumbents who just happen to be up for election this year. If the company had in place an annually elected board, HRB shareholders would have been able to pick amongst the incumbents.

Based on the factors discussed above, on balance we conclude that the presence of the three dissidents on the HRB board would likely prove beneficial to long-term shareholder value.

ISS Conclusion and Vote Rec

We conclude that HRB's long-term underperformance can be traced to either a failed diversification strategy or poor execution. While the company already is trying to divest its troubled mortgage unit (some would argue a day late and a dollar short), we believe that the company will continue to face other challenges, including what to do about the poorly performing brokerage unit, whether the benefits of the new bank outweigh the drawbacks and continued competitive pressure in the core tax prep business. A new shareholder perspective on the board should help to meet these challenges.

While Breeden has a reputation as a good corporate governance advocate and relevant experience as monitor in high profile corporate turnarounds, his track record as an activist investor is still in the making. Given Breeden's well-reasoned arguments and his nominees' experience, we believe the dissidents will be able to add value to board deliberations.

The company has raised the issue of Breeden's potential conflict of interest as KPMG's monitor. We believe his role at KPMG should be put into perspective. Breeden's role is related to that firm's tax practice, not its audit business. KPMG has not appeared troubled by Breeden's similar role at other companies. Moreover, as a former SEC Chairman who over the years became the US government's "go to" guy to oversee companies suffering from ethical turmoil, we believe that Breeden has a hard-earned reputation for integrity to protect that mitigates against any incentive for him to misuse his position. In the worst case scenario, KPMG could decide to resign as auditor. In our view, however, any cost or disruption has to be weighed against the opportunity cost of not changing the board's composition. We believe that, in this case, given HRB's poor long term returns, these concerns should take second priority.

Based on the factors discussed above, on balance we conclude that the presence of the dissidents on the HRB board would likely prove beneficial to long-term shareholder value. The long-term financial and operational performance of the company and the dissidents' skill sets and track record establish both the need for change and the dissidents' ability to effect change.

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Contacts:

Chris Young, JD, CFA	Qin Tuminelli, CFA
Director & Head M&A Research	Manager, M&A Insight
Tel.: 301.556.0625	Tel.: 301.556.0415
Christopher.Young@issproxy.com	Qin.Tuminelli@issproxy.com

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