

H&R Block Reports 17 Cent Per Share First Quarter Loss

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Strong Mortgage Performance Leads Operating Results

H&R Block Inc. (NYSE: HRB) today reported a net loss of \$30.8 million for the quarter ended July 31, 2001, or 17 cents per basic and diluted share, compared with \$51.7 million, or 28 cents per basic and diluted share, last year, representing a 40.5 percent improvement. Revenues for the first quarter increased 6.6 percent to \$324.1 million, compared with \$304.1 million for the same period last year.

"This quarter's operating improvement is due primarily to outstanding performance in our mortgage operations," said Mark A. Ernst, H&R Block's president and chief executive officer. "Strength in all aspects of the business -- retail operations, servicing and wholesale origination -- drove record results in this business segment. In addition, the quality of the loans originated by our mortgage businesses resulted in exceptional sale proceeds in the secondary market.

"Prudent expense management within the U.S. tax segment also contributed to results this quarter," Ernst added. "Even with cautious expense management, we're highly focused on preparations for the upcoming tax season and have a number of strategic initiatives in development. Our alliance with AOL Time Warner, expansion of our successful Employer Solutions program, and increased ability to serve our clients' financial needs typify our efforts to deliver a good year across all of our business units."

Fiscal 2002 first quarter results reflect the company's previously announced early adoption of Statement of Financial Accounting Standards No. 141 and 142 (SFAS 141 and 142) related to business combinations, goodwill and other intangible assets, which resulted in the elimination of goodwill and certain other intangible asset amortization as of May 1, 2001. The adoption of SFAS 141 and 142 represents \$11.4 million, or 6 cents per share, of the improvement over the prior year first quarter.

Cash earnings improved 31.4 percent over the prior year's quarter with a loss of \$21.4 million, or 12 cents per basic and diluted share, compared with \$31.1 million, or 17 cents per basic and diluted share last year. The company defines cash earnings as net losses from operations excluding the after-tax effect of amortization expense of acquired intangible assets.

In the first quarter, the company purchased 2.04 million of its shares of common stock for approximately \$67.6 million, or an average cost of \$33.17 per share.

In the quarter, the company's performance as measured by earnings before interest (including interest expense on acquisition debt, investment income and interest allocated to operating business units), taxes, depreciation and amortization (EBITDA), improved from a negative \$19 million last year to a positive \$849,000.

Tax Operations

H&R Block's U.S. tax operations reported revenues of \$20 million, an increase of \$8.6 million, or 76 percent, compared with \$11.4 million in the same quarter a year ago. Higher volumes and average fees from off-season tax preparation, revenues from the company's Peace of Mind service, and growth in its e-commerce business drove the increased revenues.

The pretax loss for the segment decreased \$4.4 million to \$81.2 million, compared with a pretax loss of \$85.6 million last year. The adoption of SFAS 141 and 142 represents \$2.9 million of the improvement over last year. The segment's \$1.5 million improvement in operating performance was driven by the higher revenues, partially offset by investment in technology and associate training for the upcoming tax season. Also contributing to the improved results was the company's efforts to control expenses across operations. EBITDA improved \$862,000 to a negative \$69.2 million, or 1.2 percent over the prior year.

The pretax loss in International tax operations improved 11 percent. The adoption of SFAS 141 and 142 represents \$159,000 of the improvement. The improvement in operating results was driven primarily by better cost controls in Canada. International tax operations reported a 5.8 percent improvement in EBITDA to a negative \$4.9 million compared with a negative \$5.2 million last year.

Mortgage Operations

Mortgage operations, which primarily includes Option One Mortgage Corporation and H&R Block Mortgage Corporation, reported pretax earnings rose to \$66.8 million, compared with \$21.5 million last year. The adoption of SFAS 141 and 142 accounts for \$3.4 million of the improvement over the prior year. Revenues rose 84 percent to \$148.3 million.

Higher loan origination and servicing volume, improved pricing on loans generated, and contributions from retail mortgage combined for an outstanding quarter. In addition, higher volumes helped drive a 20 percent decline in the cost of origination, contributing to the 127 basis point year-over-year improvement in operating profit margin. Operating profit margin for the first quarter was 2.94 percent compared with 1.67 percent in last year's first quarter. Operating profit margin is defined as pretax earnings before amortization divided by mortgage fundings. EBITDA increased \$42.9 million to \$69.9 million, or 158.6 percent over the prior year.

"Option One benefited from outstanding management in a strong market environment and improved pricing for loan sales," Ernst said. "In addition, Option One's servicing business continues to grow, increasing revenues 41.6 percent over the prior year."

Option One and H&R Block Mortgage originated \$2.6 billion in loans during the first quarter, an increase of 89.3 percent over the previous year's quarter. Option One's ending servicing portfolio was \$19.2 billion, compared with \$14.7 billion last year.

"Our retail mortgage business achieved its first profitable quarter, contributing 15 percent to the mortgage segment's year-over-year improvement," Ernst said. "H&R Block tax clients represented 61.2 percent of our retail mortgage loans, demonstrating that this client base delivers a unique competitive advantage and that our strategy of cross-selling products and services is working."

The company expects continued strength in its mortgage segment through the second quarter of this fiscal year.

Investment Services

As anticipated, the poor market environment negatively affected H&R Block's investment services operations, which consists primarily of H&R Block Financial Advisors Inc. First quarter revenues totaled \$68.9 million compared with \$130.7 million last year. The segment reported a pretax loss of \$6.1 million compared with pretax earnings of \$11.7 million last year. The adoption of SFAS 141 and 142 negatively impacted the change over the prior year by \$4.3 million. Investment services reported a decline in EBITDA to \$6.8 million from \$27.5 million in the prior year.

"Despite a difficult market environment, we continue to make key investments in this business to develop the capabilities needed to execute our strategy," Ernst said.

Business Services

Business services, which primarily includes RSM McGladrey, reported a pretax loss of \$2.2 million compared with \$3.2 million last year. Revenues increased 5.1 percent to \$80 million compared with \$76.1 million last year. The adoption of SFAS 141 and 142 represents \$4.2 million of the improvement over the prior year. The increased operating loss was due primarily to off-season losses from firms acquired during fiscal 2001 as well as normal operating cost increases. Business services reported a decline in EBITDA to \$3.1 million, compared with \$6 million last year.

Other

Interest expense on acquisition debt decreased \$5.9 million due to lower interest rates. Effective May 1, 2001, the company adopted a new methodology for allocation of corporate services and support costs to business units. This change was made in an effort to more accurately reflect each business line's performance. Prior year results have been restated to reflect the new methodology.

"Based on the strength of mortgage operations, we currently expect that earnings per share growth for fiscal 2002, excluding the impact of accounting changes, will be within the middle to upper end of our guidance range of 13 to 18 percent," Ernst said. "We expect overall company revenue growth to reach the low end of our growth target range of 10 to 15 percent per year."

As announced in June, H&R Block's Board of Directors declared a quarterly dividend of 16 cents per share payable Oct. 1, 2001, to shareholders of record Sept. 10, 2001. A conference call with H&R Block management discussing first quarter results will be conducted live today at 5 p.m. EDT and may be accessed at www.hrblock.com.

Except for historical information contained herein, the matters set forth in this press release are forward-looking statements based upon current information and expectations. Such statements speak only as of the date on which they are made, are not guarantees of future performance, and involve certain risks, uncertainties and assumptions that could cause actual results to differ materially from what is expressed, implied or forecast in such forward-looking statements. Such differences could be caused by a number of factors, including, but not limited to, the uncertainties that the company will achieve its revenue, earnings and earnings per share goals for fiscal year 2002 and that actual financial results for fiscal year 2002 will fall within the guidance provided by the company; changes in economic, political or regulatory environments; changes in competition and the effects of such changes; litigation involving the company; and risks described from time to time in reports and registration statements filed by H&R Block Inc. and its subsidiaries with the Securities and Exchange Commission. Readers should take these factors into account in evaluating such forward-looking statements.

About H&R Block:

H&R Block Inc. is a diversified company with subsidiaries providing a wide range of financial products and services. In 2001, H&R Block served 19.2 million taxpayers -- more than any tax or accounting firm -- through its more than 10,400 offices located in the United States, Canada, Australia and the United Kingdom. H&R Block served another 2.3 million tax clients through its award-winning TaxCut(R) software program and through its online tax preparation services. Investment services and securities products are offered through H&R Block Financial Advisors Inc., member NYSE, SIPC. H&R Block, Inc. is not a registered broker-dealer. H&R Block Mortgage Corporation and Option One Mortgage Corporation offer a wide range of home mortgage products. RSM McGladrey Inc. is a national accounting, tax and consulting firm with 100 offices nationwide, as well as an affiliation with 550 offices in 75 countries as the U.S. member of RSM International. Additional information is available on the company's Web site at www.hrblock.com.

H&R BLOCK, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
Unaudited, amounts in thousands, except per share data

	Three months ended July 31,		
	2001	2000	1999
Revenues	\$324,125	\$304,110	\$121,560
Loss before income tax benefit	(51,738)	(89,993)	(59,797)
Net loss	\$(30,784)	\$(51,746)	\$(37,074)
Basic net earnings (loss) per share:			
Net loss	\$(0.17)	\$(0.28)	\$(0.19)
Basic shares outstanding	183,859	186,522	195,426

Notes to Consolidated Statements of Operations

On June 20, 2001, the Company's Board of Directors declared a two-for-one stock split of its Common Stock in the form of a 100% stock distribution effective August 1, 2001, to shareholders of record as of the close of business on July 10, 2001. Basic net earnings (loss) per share is based on the weighted average number of shares outstanding during each period. All quarters presented have been adjusted to reflect the stock split.

Reclassifications have been made to prior years to conform with current period presentation.

In July 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 141, "Business Combinations," and No. 142, "Goodwill and Other Intangible Assets" (SFAS 141 & 142). SFAS

141 addresses financial accounting and reporting for business combinations and replaces APB Opinion No. 16, "Business Combinations" (APB 16). SFAS 141 no longer allows the pooling of interests method of accounting for acquisitions, provides new recognition criteria for intangible assets and carries forward without reconsideration the guidance in APB 16 related to the application of the purchase method of accounting. SFAS 142 addresses financial accounting and reporting for acquired goodwill and other intangible assets and replaces APB Opinion No. 17, "Intangible Assets" (APB 17). SFAS 142 addresses how intangible assets should be accounted for upon their acquisition and after they have been initially recognized in the financial statements. As of May 1, 2001, the Company elected early adoption of both SFAS 141 & 142. The implementation of these standards had the effect of reducing amortization expense of acquired intangible assets by \$15.6 million during the first quarter of fiscal year 2002.

On December 1, 1999, the Company completed the acquisition of the outstanding capital stock of Olde Financial Corporation and Financial Marketing Services, Inc. (collectively, OLDE). The purchase price was \$850 million in cash plus net tangible book value payments of \$48.5 million. The acquisition was accounted for as a purchase and, accordingly, OLDE's results are included since the date of the acquisition. The acquisition was funded with short-term borrowings and the issuance of \$500 million in Senior Notes in the fourth quarter of fiscal 2000.

On August 2, 1999, the Company, through a subsidiary, RSM McGladrey, Inc., completed the purchase of substantially all of the non-attest assets of McGladrey & Pullen, LLP. The purchase price was \$240 million in cash payments over four years and the assumption of certain pension liabilities with a present value of \$52.7 million. The acquisition was accounted for as a purchase, and accordingly, results are included since the date of acquisition.

During the three months ended July 31, 2001, 2000 and 1999, the Company issued shares of its common stock pursuant to provisions for exercise of the Company's stock option plans as follows: 2001 - 1,528,611 shares; 2000 - 36,300 shares; 1999 - 392,086 shares. During the same periods, the Company reacquired shares of its common stock as follows: 2001 - 2,037,400 shares at an aggregate cost of \$67,583,000; 2000 - 13,063,000 shares at an aggregate cost of \$213,107,000.

H&R BLOCK, INC.

SELECTED OPERATIONAL INFORMATION

Unaudited, amounts in thousands

	Three months ended July 31,			
	Revenues		Earnings (loss)	
	2001	2000	2001	2000
U.S. tax operations	\$19,979	\$11,350	\$(81,168)	\$(85,562)
International tax operations	4,832	4,899	(5,653)	(6,355)
Mortgage operations	148,325	80,600	66,779	21,530
Investment services	68,925	130,667	(6,098)	11,683
Business services	79,982	76,097	(2,171)	(3,234)
Unallocated corporate	2,082	497	(5,439)	(4,541)
Interest expense on acquisition debt	-	-	(21,398)	(27,288)
	\$324,125	\$304,110	(55,148)	(93,767)
Investment income, net			1,120	2,719
Intercompany interest*			2,290	1,055
			(51,738)	(89,993)
Income tax benefit			(20,954)	(38,247)
Net loss			\$(30,784)	\$(51,746)

* Intercompany interest represents net interest expense charged to financial related businesses for corporate cash that was borrowed to fund their operating activities and net unallocated interest expense attributable to commitment fees on the unused portion of the Company's \$1.86 billion credit facility.

H&R Block, Inc.
 Consolidated Balance Sheets
 Unaudited, amounts in thousands, except share data

	July 31,	
	2001	2000
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$251,850	\$219,718
Marketable securities -- available-for-sale	1,500	20,077
Marketable securities -- trading	176,352	44,359
Receivables from customers, brokers, dealers and clearing organizations, less allowance for doubtful accounts of \$1,735 and \$801	1,262,193	2,738,536
Receivables, less allowance for doubtful accounts of \$42,877 and \$56,121	277,977	342,446
Prepaid expenses and other current assets	244,466	196,404
TOTAL CURRENT ASSETS	2,214,338	3,561,540
INVESTMENTS AND OTHER ASSETS:		
Investments in available-for- sale marketable securities	250,252	256,990
Excess of cost over fair value of net tangible assets acquired, net of amortization	1,043,333	1,071,053
Other	248,315	207,688
	1,541,900	1,535,731
PROPERTY AND EQUIPMENT, at cost less accumulated depreciation and amortization	278,601	291,949
	\$4,034,839	\$5,389,220
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Notes payable	\$373,335	\$640,076
Accounts payable to customers, brokers and dealers	1,007,318	2,398,795
Accounts payable, accrued expenses and deposits	248,693	193,217
Accrued salaries, wages and payroll taxes	98,872	66,910
Accrued taxes on earnings	215,929	126,001
Current portion of long-term debt	52,428	70,582
TOTAL CURRENT LIABILITIES	1,996,575	3,495,581
LONG-TERM DEBT	870,549	869,931
OTHER NONCURRENT LIABILITIES	93,973	91,660
STOCKHOLDERS' EQUITY:		
Common stock, no par, stated value \$.01 per share	2,179	2,179
Additional paid-in capital	416,622	421,601

Retained earnings	1,346,924	1,174,841
	1,765,725	1,598,621
Less cost of 34,791,128 and 34,902,066 shares of common stock in treasury	691,983	666,573
	1,073,742	932,048
	\$4,034,839	\$5,389,220

H&R Block, Inc.
Consolidated Statements of Cash Flows
Unaudited, amounts in thousands

	Three months ended July 31,	
	2001	2000
Cash flows from operating activities:		
Net loss	\$(30,784)	\$(51,746)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	34,599	47,457
Provision for bad debt	10,836	5,521
Accretion of acquisition liabilities	3,585	3,234
Changes in:		
Receivables from customers, brokers, dealers and clearing organizations	48,535	118,843
Receivables	(48,808)	32,989
Marketable securities - trading	3,635	1,044
Prepaid expenses and other current assets	16,476	(50,663)
Accounts payable to customers, brokers and dealers	(50,682)	(171,405)
Accounts payable, accrued expenses and deposits	(112,517)	(29,145)
Accrued salaries, wages and payroll taxes	(122,958)	(106,423)
Accrued taxes on earnings	(79,670)	(90,297)
Other, net	(2,045)	(3,043)
Net cash used in operating activities	(329,798)	(293,634)
Cash flows from investing activities:		
Purchases of available-for-sale securities	(607)	(536)
Maturities of available-for-sale securities	23,686	5,602
Purchases of property and equipment, net	(13,776)	(11,536)
Payments made for business acquisitions, net of cash acquired	(2,084)	(1,036)
Other, net	(731)	25,295
Net cash provided by investing activities	6,488	17,789
Cash flows from financing activities:		
Repayments of notes payable	(1,136,895)	(4,536,830)
Proceeds from issuance of notes payable	1,510,230	4,893,109
Payments on acquisition debt	(1,769)	(2,628)
Dividends paid	(27,660)	(26,305)
Payments to acquire treasury		

shares	(67,583)	(213,107)
Proceeds from stock options exercised	26,915	231
Other, net	109	1,192
Net cash provided by financing activities	303,347	115,662
Net decrease in cash and cash equivalents	(19,963)	(160,183)
Cash and cash equivalents at beginning of the period	271,813	379,901
Cash and cash equivalents at end of the period	\$251,850	\$219,718
Supplementary cash flow data:		
Income taxes paid	\$68,776	\$51,737
Interest paid	19,844	67,400

H&R Block, Inc.
Consolidated Statements of Operations
Unaudited, amounts in thousands, except per share data

	Three Months Ended July 31,	
	2001	2000
Revenues:		
Service revenues	\$205,568	\$243,779
Product sales	112,856	51,200
Royalties	1,557	1,316
Other income	4,144	7,815
	324,125	304,110
Operating expenses:		
Employee compensation and benefits	176,029	146,540
Occupancy and equipment	59,679	60,224
Interest	29,805	63,198
Depreciation and amortization	34,599	47,457
Marketing and advertising	6,992	9,774
Supplies, freight and postage	6,573	7,579
Bad debt	10,836	5,521
Other	52,631	56,511
	377,144	396,804
Operating loss	(53,019)	(92,694)
Other income:		
Investment income, net	1,118	2,719
Other, net	163	(18)
	1,281	2,701
Loss before income tax benefit	(51,738)	(89,993)
Income tax benefit	(20,954)	(38,247)
Net loss	\$(30,784)	\$(51,746)
Basic net loss per share	\$(0.17)	\$(0.28)
Basic shares outstanding	183,859	186,522

H&R Block, Inc.
Financial Services Operating Data

H&R Block Financial Advisors, Inc.

For the three months ended

	7/27/01	7/28/00	% Change	4/27/01
Customer trades (000's)	389	646	-39.8%	489
Customer daily average trades	6,180	10,262	-39.8%	7,760
Average commission per trade	\$62.29	\$63.31	-1.6%	\$67.21
Number of active accounts (000's)	621	651	-4.7%	620
Average trades per active account per quarter	0.63	0.99	-36.8%	0.79
Average trades per active account per year (annualized)	2.51	3.97	-36.8%	3.15
Ending balance of assets under administration (\$ bn's)	\$30.1	\$42.2	-28.6%	\$31.5
Average assets per active account	\$48,498	\$64,738	-25.1%	\$50,817
Ending debit balances (\$ bn's)	\$1.2	\$2.7	-54.5%	\$1.3
Ending credit balances (\$ bn's)	\$0.8	\$0.9	-18.5%	\$0.8
Ending balance of assets under management (\$ bn's) (principally money market funds)	\$3.5	\$3.4	4.4%	\$3.7

Option One Mortgage Corporation

	For the three months ended			
	7/31/01	7/31/00	% Change	4/30/01
Number of loans originated				
Wholesale	17,999	11,302	59.3%	14,160
Retail	3,695	2,155	71.5%	3,520
Total	21,694	13,457	61.2%	17,680
Volume of loans originated (000's)				
Wholesale	\$2,120,528	\$1,160,400	82.7%	\$1,579,171
Retail	503,418	225,941	122.8%	467,579
Total	\$2,623,946	\$1,386,341	89.3%	\$2,046,750
Loan sales	\$2,618,446	\$847,282	209.0%	\$2,127,493
Servicing portfolio				
Number of loans serviced (000's)	180.5	145.2	24.3%	173.9
Servicing portfolio (\$ bn's)	\$19.2	\$14.7	30.3%	\$18.2

SOURCE H&R Block, Inc.

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