

H&R Block Reports Record Q3 Results

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Raises Full Year Earnings Guidance

[Click Here](#) to view H&R Block's interim tax season data.

H&R Block Inc. (NYSE: HRB) today reported record third quarter revenues and earnings due to solid performance in its U.S. tax segment and outstanding performance in its mortgage segment. The company said it expects to exceed its previously announced earnings guidance for the fiscal year ending April 30, 2003. In addition, the company declared its quarterly dividend of 18 cents.

For the third quarter ended Jan. 31, 2003, H&R Block's earnings increased to \$132.3 million, or 73 cents per diluted share, up from \$29.6 million, or 16 cents per diluted share, last year. These results include a gain of 43 cents per diluted share from the sale of mortgage residual assets announced on Nov. 18. Excluding this gain, the company nearly doubled earnings from operations to 30 cents per diluted share.

Cash earnings improved \$102.9 million, or 261 percent, to \$142.3 million, or 78 cents per diluted share, compared with \$39.4 million, or 21 cents per diluted share last year. Excluding the effect of the sale of mortgage residual assets announced on Nov. 18, cash earnings from operations were \$64.6 million, or 35 cents per diluted share. Cash earnings are a non-GAAP financial measurement that the company defines as net earnings excluding the after-tax effect of amortization expense of acquired intangible assets.

Revenues for the third quarter increased 30.7 percent to \$958.4 million, compared with \$733.5 million in last year's third quarter.

"We had an outstanding third quarter," said Mark A. Ernst, H&R Block's chairman and chief executive officer. "We had a solid start to the tax-filing season along with continued great performance in our mortgage segment."

"While it's still early in the tax season, trends thus far indicate that our overall strategy to enhance service to our clients while carefully controlling our costs is working well," Ernst said. "Coupled with the continued strength of our mortgage operations, we're on track to beat our previous guidance for full year results. We now expect earnings per share to be in the range of \$3.10 to \$3.25, up 34 to 41 percent from fiscal 2002, when H&R Block earned \$2.31 per diluted share. Revenues will likely exceed our target growth range of 10-to-15 percent for the year."

The company's guidance range of \$3.10 to \$3.25 per diluted share includes 27 cents of one-time charges for a legal settlement and goodwill impairment charges recorded earlier in the company's fiscal year. The analysts' earnings estimates on First Call exclude the one-time charges, which are included in the company's expected GAAP results. Excluding these one-time charges, the guidance range would be \$3.37 to \$3.52 per diluted share compared to First Call consensus estimates of \$3.35 per diluted share.

U.S. Tax Operations

H&R Block's U.S. tax operations reported revenues of \$403.6 million, an increase of \$31.7 million, or 8.5 percent, compared with \$371.9 million in the same quarter a year ago. This increase was achieved despite a decline in refund anticipation loan (RAL) revenues of \$6 million due to a change in the company's RAL participation agreement with Household Tax Masters. Pretax earnings for the segment improved \$8.9 million to \$34.1 million, an increase of 35 percent, compared with \$25.3 million last year. The primary contributors to the segment's improved results were increases in the number of clients and average fees per client, strong online and software results, and strict cost management.

From Jan. 1 through Jan. 31, tax preparation and related fees from company-owned and franchised offices increased 12.9 percent compared with the same period last year, while the number of tax returns prepared increased 5.1 percent. Consistent with the company's expectations, the average fee per client increased 8 percent to \$124, compared with \$115 last year. As of Jan. 31, H&R Block had filed 3.8 million federal returns electronically, representing a 6.6 percent increase over the prior year. Through the

first month of the tax season, 95.2 percent of returns processed by the company were filed electronically. The number RALs processed by H&R Block increased 7.7 percent to 1.95 million, compared with 1.81 million for the same period in 2002.

H&R Block said that results through Feb. 15 were weaker than expected for its retail offices and showed slower growth across all filing channels. The number of tax returns prepared by company-owned and franchise operations declined 0.5 percent compared with the same period last year, while clients served grew by 2.2 percent. Tax preparation and related fees increased 7.6 percent. In the period ending Feb. 15, the average fee per client increased 8.7 percent to \$126.

"We remain cautiously optimistic that lagging consumer filing behaviors of the early season are understood and will reverse as the filing season progresses," Ernst said. "The lack of a specific catalyst this filing season, such as last year's rate reduction credit, the generally later mailing of tax information such as W-2s, and also the continuing uncertainty in the geopolitical landscape all appear to be affecting the timing of tax filing behavior. Early results were also negatively affected by challenging weather in some parts of the U.S. both through Feb. 15 and in the week that followed. On the positive side, we are seeing early indications that client retention initiatives are having a good effect on our business."

Outlook for Remainder of Tax Season

"While we are encouraged by our solid start this tax season, a significant share of the tax filing season remains," Ernst said. "Our analysis of early season data indicates that our full year earnings growth targets are achievable, with average revenue per client expected to continue throughout the remainder of tax season."

E-solutions

The company's e-Solutions businesses, including its TaxCut(R) software and online tax services, increased revenues 10.5 percent to \$19.1 million. The third quarter pretax loss of \$5.1 million was a \$6.7 million improvement compared with the pretax loss of \$11.8 million for the third quarter last year. The improved operating performance is due to the increase in revenues, combined with continuing containment of technology and client support costs.

"We believe that our multi-channel tax strategy is starting to pay-off. We are winning market share in the do-it-yourself e-file segment and seeing clients coming to our retail offices after first experiencing H&R Block services online," Ernst said. According to the Internal Revenue Service (IRS), do-it-yourself e-filers increased by 1.1 million returns in the period through Feb. 14. During that period, self-prepared returns e-filed using H&R Block represented more than 42 percent of the total growth in this market, the company said.

Through Feb. 15, the number of paid online clients increased 124 percent compared with the prior year. The number of clients who purchased online professional service from one of H&R Block's Tax Professionals increased 145 percent.

TaxCut software from H&R Block this year has been overwhelmingly chosen as the best choice in tax software by the nation's top software reviewers in national publications, including The Wall Street Journal, The New York Times, Barron's, PC Magazine and PC World. H&R Block is the only company that is able to offer retail, online and software tax services under a single brand.

International Tax Operations

International tax operations, which include Canada, Australia and the United Kingdom, generated revenues of \$8.8 million, up 10.1 percent over last year. The pretax loss increased \$493,000, or 9.4 percent to \$5.7 million, compared with a loss of \$5.2 million a year ago. Revenues grew due to an increase in the number of tax returns prepared and higher average fees in Australia. The increased loss is due primarily to the timing of expenses.

Mortgage Operations

Mortgage operations, which primarily include Option One Mortgage Corp. and H&R Block Mortgage Corp., reported pretax earnings that rose 239 percent to \$262.5 million, compared with \$77.4 million last year. Excluding a gain from sale of residual assets, pretax earnings grew 70.0 percent to \$131.6 million.

A 44.4 percent increase in loan originations, larger servicing volume, and contributions from retail mortgage combined for an outstanding quarter. Operating profit margin for the quarter was 2.70 percent, compared with 2.28 percent in last year's third

quarter. Operating profit margin is defined as pretax earnings before accretion on residual write-ups divided by mortgage fundings.

"The performance of our mortgage businesses continues to be outstanding," Ernst said. "Growing origination in all of our channels, high quality service to our borrowers and careful attention to solid underwriting have allowed us to continue building momentum in this business while growing our cash earnings.

"Origination in our retail mortgage operations was up 41 percent compared to last year, demonstrating the momentum that we are building in our effort to broaden and deepen our relationship with H&R Block tax clients. H&R Block tax clients generated 10.6 percent of all loans originated and 42.5 percent of all retail loans during the quarter."

Option One and H&R Block Mortgage originated \$4.5 billion in loans during the third quarter, a 56.6 percent improvement over \$2.9 billion in loan originations last year. Option One's servicing portfolio was \$28.9 billion at the end of the quarter, a 27.3 percent improvement compared with \$22.7 billion last year. Revenues from servicing increased \$9 million.

The segment's net gain-on-sale was 4.60 percent compared to 3.82 percent last year. This increase was driven by higher returns from mortgage securitizations. Cash proceeds from the sale of third quarter loan production were 78 percent of the total gain-on-sale, compared with 84 percent in the second quarter. By managing the mortgage business to optimize cash earnings from loan originations, the segment ensures that only a small portion of its gain on sale revenue is dependent upon future loan performance and related prepayment and loss assumptions.

Credit quality remains strong. Average FICO scores for non-prime originations continued to improve to 606 for current quarter originations compared to 604 last quarter and 597 for the year ago quarter. Actual non-prime loan performance relative to the segment's valuation assumptions remains well within the modeled assumptions. Based upon continued out-performance of loans and previously sold loans pools, the Company recorded a \$40.7 million net write-up of its residual assets in the quarter. The write-up was recorded as an increase in Other Comprehensive Income and is not included in the reported earnings in the third quarter.

Based on current trends and market conditions, the company expects continued strength in its mortgage segment in the fourth quarter. Loan originations remain very strong across all origination channels. Loan performance continued to exceed modeled expectations.

Investment Services

H&R Block's investment services operations, which consists primarily of H&R Block Financial Advisors Inc., continues to be adversely affected by the decline in investor activity and weak market conditions, combined with the continued geopolitical uncertainty. Third quarter revenues totaled \$48 million, a 21.3 percent decrease compared with \$61.1 million last year. The segment reported a pretax loss of \$31.8 million, an increase of 158 percent compared with a pretax loss \$12.3 million last year.

The increased loss is due primarily to lower revenues. Initiatives to replace the business' back office system and strategically expand its tax professional referral program resulted in additional third quarter costs. With these improvements in place, the company now expects expenses to return to levels consistent with the first two quarters of the fiscal year.

Key drivers of revenues for the business, including trading levels and margin balances, were consistent with those seen in the previous quarter. Third quarter equity trading volume was down 39 percent over last year. Related equity transaction-based revenues declined by \$8 million, or 35 percent. Consistent with industry trends, the company expects low levels of trading activity to continue through its fourth quarter.

Business Services

Business services, which primarily include RSM McGladrey, reported a pretax loss of \$4.2 million, compared to earnings of \$1.8 million last year. Revenues declined 5.9 percent to \$100.7 million, compared with \$107.1 million last year.

Mid-single digit revenue growth in core accounting and tax services was offset by declining revenues in consulting services. The continued recession in manufacturing and the cautious business environment are the primary contributors to the slowdown in consulting services. The company also experienced a slowdown in capital markets revenue during the quarter while additional expenses to support new client growth at its payroll processing business contributed to the quarterly loss.

Nine Month Results

For the nine months ended Jan. 31, 2002, H&R Block's revenues were \$1.9 billion, up 29.6 percent from the same period a year ago. Net earnings were \$85.4 million, or 46 cents per diluted share, compared with a net loss of \$29.2 million, or 16 cents per diluted share for the same nine-month period last year. Cash earnings improved to \$139.5 million, or 76 cents per diluted share, compared with a loss of \$492,000 in the same nine-month period last year. Cash earnings are a non-GAAP financial measurement that the company defines as net earnings excluding the after-tax effect of amortization expense of acquired intangible assets and goodwill impairment.

Shares Repurchased

During the quarter, the company repurchased 100,000 shares of stock at a total cost of \$4 million, or an average cost of \$39.67 per share. Fiscal year to date, the company has repurchased 6.6 million shares at a total cost of \$317 million, or an average cost of \$47.94 per share.

The company issued 4.4 million shares for option exercises, employee stock purchase plan purchases, and restricted shares, of which 2.6 million were related to seasonal tax professional stock option exercises (compared with 6.4 million for seasonal tax professionals last year.) Proceeds from the exercise of these options totaled \$112.8 million.

Dividend Announced

The Board of Directors of H&R Block Inc. declared a quarterly dividend of 18 cents per share payable April 1, 2003, to shareholders of record on March 11, 2003.

Non-GAAP Financial Measurements

A non-GAAP financial measurement is a numerical measurement of financial performance, financial position or cash flows that excludes or includes amounts included or excluded, respectively, from comparable financial measures defined under generally accepted accounting principles. The company will from time to time provide non-GAAP financial measures because it believes such measures aid in the analysis and comparability of its financial results, or because such measures are commonly used by the investment community to analyze financial results.

Cash earnings are a non-GAAP financial measurement that the company defines as net earnings excluding the after-tax effect of amortization expense of acquired intangible assets and (when applicable) goodwill impairment. Net earnings as determined by generally accepted accounting principles would be the most comparable GAAP financial measurement. Following is a reconciliation of adjustments to net earnings in order to determine cash earnings as defined by the company (in millions except per share data).

| | Three Months Ended | | Nine Months Ended | |
|--|--------------------|--------|-------------------|----------|
| | January 31, | | January 31, | |
| | 2003 | 2002 | 2003 | 2002 |
| Net earnings (loss) | \$132.3 | \$29.6 | \$85.4 | \$(29.2) |
| Amortization expense and goodwill impairment, after applicable taxes | 10.0 | 9.8 | 30.1 | 28.7 |
| Goodwill impairment | | | 24.0 | |
| Cash earnings (loss) | 142.3 | 39.4 | 139.5 | (0.5) |
| Earnings (loss) per diluted share | 0.73 | 0.16 | 0.46 | (0.16) |
| Cash earnings (loss) per diluted share | 0.78 | 0.21 | 0.76 | 0.00 |

Other

A conference call with H&R Block management discussing third quarter results will be conducted live today at 5 p.m. EST (4 p.m. Central) 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 2003, that the level of growth experienced in U.S. tax operations in the third quarter will continue throughout the remainder of the tax season and fiscal year, that average fees per tax client will continue to increase through the tax season, of consumer tax filing patterns, that the U.S. tax operations segment will achieve announced growth targets for the fiscal year, that actual financial results for fiscal year 2003 will fall within the guidance provided by the company, of the success of the company's marketing efforts, and of the continued strong performance of the mortgage operations segment; changes in economic, political or regulatory environments; changes in competition and the effects of such changes; litigation involving the company and its subsidiaries; 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. (www.hrblock.com) is a diversified company with subsidiaries that deliver tax services and financial advice, investment and mortgage products and services, and business accounting and consulting services. As the world's largest tax services company, H&R Block served nearly 23 million clients during fiscal year 2002. Clients were served at the approximately 10,400 H&R Block retail offices worldwide and through the company's award-winning software, TaxCut(R), and its online tax services. H&R Block is the only major tax and financial services company that focuses primarily on helping middle-income taxpayers achieve their financial goals. 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 Corp. offers retail mortgage products. Option One Mortgage Corp. offers wholesale mortgage products and a wide range of mortgage services. RSM McGladrey Inc. serves mid-sized businesses with accounting, tax and consulting services.

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

| | Three months ended 2003 | January 31, 2002 |
|-----------------------------------|----------------------------|---------------------|
| Revenues | \$958,413 | \$733,532 |
| Earnings before income tax | 222,934 | 49,774 |
| Net earnings | \$132,313 | \$29,616 |
| Basic earnings per share | \$0.74 | \$0.16 |
| Basic shares outstanding | 178,770 | 182,936 |
| Diluted earnings per share | \$0.73 | \$0.16 |
| Diluted shares outstanding | 182,173 | 188,181 |
| | Nine months ended 2003 | January 31, 2002 |
| Revenues | \$1,861,175 | \$1,436,409 |
| Earnings (loss) before income tax | 144,783 | (49,041) |
| Net earnings (loss) | \$85,422 | \$(29,179) |

| | | |
|-----------------------------------|---------|----------|
| Basic earnings (loss) per share | \$0.48 | \$(0.16) |
| Basic shares outstanding | 179,620 | 183,028 |
| Diluted earnings (loss) per share | \$0.46 | \$(0.16) |
| Diluted shares outstanding | 184,378 | 183,028 |

Notes to Consolidated Statements of Operations

In November, 2002, the Company reached an agreement with the plaintiff class in a Texas class action lawsuit related to refund anticipation loans. The settlement provides a five-year package of coupons that class members can use to obtain a variety of tax preparation and tax planning services from H&R Block. As a result, the Company recorded a pretax expense of \$41.7 million during the three months ended October 31, 2002.

In accordance with Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," the Company performed step one of the goodwill impairment test as of July 31, 2002 for the Investment Services segment. As this valuation indicated a potential impairment, step two of the impairment test was performed in the second quarter. Management recorded an estimated impairment charge of \$18.0 million in the first quarter of fiscal 2003. Step two of the impairment test was completed in the second quarter, and an additional \$6.0 million impairment was recorded. The total goodwill impairment of \$24.0 million is included as a separate line item in the consolidated statements of operations for the nine months ended January 31, 2003 and is included in the Investment Services segment where applicable.

Results for 2002 have been adjusted to reflect the implementation of Emerging Issues Task Force Issue No. 01-9, "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)." The effect of this change was to decrease revenues and expenses by \$7.4 million and \$8.4 million for the three and nine months ended January 31, 2002, respectively. There was no impact on net earnings.

Results for 2002 have been adjusted to reflect the implementation of Emerging Issues Task Force Issue No. 01-14, "Income Statement Characterization of Reimbursements Received for 'Out-of-Pocket' Expenses Incurred." The effect of this change was to increase revenues and expenses by \$12.9 million and \$13.9 million for the three and nine months ended January 31, 2002, respectively. There was no impact on net earnings.

During the nine months ended January 31, 2003 and 2002, the Company issued shares of its common stock pursuant to provisions for exercise of the Company's stock option plans as follows: 2003 - 4,242,827 shares; 2002 - 9,260,707 shares. During the same periods, the Company reacquired shares of its common stock as follows: 2003 - 6,625,380 shares at an aggregate cost of \$317,608,000; 2002 - 9,697,158 shares at an aggregate cost of \$352,213,000.

Basic net earnings (loss) per share is based on the weighted average number of shares outstanding. The dilutive effect of potential common shares is included in diluted net earnings per share. Diluted shares for the nine months ended January 31, 2002 excludes the impact of potential common shares, as they are antidilutive.

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

H&R BLOCK, INC.
 SEGMENT FINANCIAL RESULTS
 Unaudited, amounts in thousands

| | Three months ended January 31, | | Earnings (loss) | |
|--------------------------------------|--------------------------------|-----------|-----------------|----------|
| | 2003 | 2002 | 2003 | 2002 |
| U.S. Tax Operations | \$403,571 | \$371,874 | \$34,137 | \$25,280 |
| International Tax Operations | 8,779 | 7,977 | (5,735) | (5,242) |
| Mortgage Operations | 396,980 | 179,751 | 262,466 | 77,427 |
| Investment Services | 48,047 | 61,085 | (31,755) | (12,300) |
| Business Services | 100,741 | 107,061 | (4,197) | 1,780 |
| Corporate Operations | 295 | 5,784 | (13,968) | (17,928) |
| Interest expense on acquisition debt | - | - | (18,014) | (19,243) |
| | \$958,413 | \$733,532 | 222,934 | 49,774 |
| Income taxes | | | 90,621 | 20,158 |
| Net earnings | | | \$132,313 | \$29,616 |

| | Nine months ended January 31, | | Earnings (loss) | |
|--------------------------------------|-------------------------------|-------------|-----------------|-------------|
| | 2003 | 2002 | 2003 | 2002 |
| U.S. Tax Operations | \$460,286 | \$418,915 | \$(212,192) | \$(160,113) |
| International Tax Operations | 28,388 | 26,450 | (12,436) | (11,886) |
| Mortgage Operations | 921,874 | 508,897 | 563,071 | 237,397 |
| Investment Services | 156,737 | 194,837 | (92,488) | (27,533) |
| Business Services | 293,938 | 279,866 | (12,255) | 2,163 |
| Corporate Operations | (48) | 7,444 | (33,927) | (29,068) |
| Interest expense on acquisition debt | - | - | (54,990) | (60,001) |
| | \$1,861,175 | \$1,436,409 | 144,783 | (49,041) |
| Income tax (benefit) | | | 59,361 | (19,862) |
| Net earnings (loss) | | | \$85,422 | \$(29,179) |

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

| | January 31, | |
|--|-------------|-----------|
| | 2003 | 2002 |
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$436,918 | \$538,308 |
| Cash and cash equivalents -- restricted | 418,721 | 101,917 |
| Marketable securities -- trading | 18,365 | 21,733 |
| Receivables from customers, brokers, dealers and clearing organizations, less allowance of \$1,741 and \$1,745 | 546,251 | 910,967 |
| Receivables, less allowance of \$25,762 and \$40,318 | 465,195 | 1,241,470 |
| Prepaid expenses and other current assets | 476,785 | 329,275 |
| Total current assets | 2,362,235 | 3,143,670 |

OTHER ASSETS:

| | | |
|--|-------------|-------------|
| Investments in available-for-sale marketable securities | 16,464 | 14,936 |
| Residual interests in securitizations | 274,353 | 266,199 |
| Intangible assets, net | 351,766 | 382,212 |
| Goodwill, net | 724,759 | 734,463 |
| Property and equipment, at cost less accumulated depreciation and amortization | 294,222 | 287,812 |
| Other | 225,437 | 237,176 |
| | \$4,249,236 | \$5,066,468 |

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:

| | | |
|--|-----------|-------------|
| Notes payable | \$586,803 | \$1,638,832 |
| Accounts payable to customers, brokers and dealers | 823,890 | 948,722 |
| Accounts payable, accrued expenses and deposits | 439,016 | 264,616 |
| Accrued salaries, wages and payroll taxes | 179,545 | 171,999 |
| Accrued income taxes | 70,117 | 48,100 |
| Current portion of long-term debt | 53,369 | 53,192 |
| Total current liabilities | 2,152,740 | 3,125,461 |

| | | |
|----------------|---------|---------|
| LONG-TERM DEBT | 828,900 | 874,644 |
|----------------|---------|---------|

| | | |
|------------------------------|---------|---------|
| OTHER NONCURRENT LIABILITIES | 100,106 | 100,951 |
|------------------------------|---------|---------|

STOCKHOLDERS' EQUITY:

| | | |
|---|-------------|-------------|
| Common stock, no par, stated value \$.01 per share | 2,179 | 2,179 |
| Additional paid-in capital | 498,315 | 465,963 |
| Accumulated other comprehensive income (loss) | 22,718 | (25,184) |
| Retained earnings | 1,759,479 | 1,333,494 |
| Less cost of 39,079,131 and 34,646,147 shares of common stock in treasury | (1,115,201) | (811,040) |
| Total stockholders' equity | 1,167,490 | 965,412 |
| | \$4,249,236 | \$5,066,468 |

H&R Block, Inc.

Consolidated Statements of Cash Flows

Unaudited, amounts in thousands

| | Nine months ended January 31, | |
|---|-------------------------------|------------|
| | 2003 | 2002 |
| Cash flows from operating activities: | | |
| Net loss | \$85,422 | \$(29,179) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 114,738 | 107,095 |
| Provision for bad debt | 40,472 | 50,194 |
| Accretion of acquisition liabilities | 7,079 | 8,999 |
| Accretion of residual interests in securitizations | (113,146) | (29,297) |
| Adjustments to fair value of residual interests in securitizations | 25,589 | 29,642 |
| Realized gain on sale of residual interests in securitizations | (130,881) | - |
| Tax benefit from stock option exercises | 31,168 | 55,004 |
| Additions to trading securities | | |

| | | |
|--|-----------|-------------|
| - residual interests | (326,395) | (426,409) |
| Proceeds from net interest margin transactions | 325,642 | 412,715 |
| Impairment of goodwill | 24,000 | - |
| Changes in working capital, net | (450,437) | (1,099,612) |
| Net cash used in operating activities | (366,749) | (920,848) |

Cash flows from investing activities:

Available-for-sale securities:

| | | |
|--|----------|----------|
| Purchases of available-for-sale securities | (10,577) | (3,695) |
| Cash received from residual interests in securitizations | 117,522 | 33,006 |
| Cash proceeds from sale of residual interests in securitizations | 142,486 | - |
| Maturities of other available-for-sale securities | 9,730 | 28,203 |
| Purchases of property and equipment, net | (95,629) | (71,343) |
| Payments made for business acquisitions, net of cash acquired | (24,239) | (44,397) |
| Other, net | (6,004) | (8,538) |
| Net cash provided by (used in) investing activities | 133,289 | (66,764) |

Cash flows from financing activities:

| | | |
|---|-------------|-------------|
| Repayments of notes payable | (9,301,285) | (6,147,398) |
| Proceeds from issuance of notes payable | 9,888,088 | 7,786,230 |
| Payments on acquisition debt | (52,107) | (49,479) |
| Dividends paid | (93,645) | (86,349) |
| Payments to acquire treasury shares | (317,608) | (352,213) |
| Proceeds from issuance of common stock | 112,813 | 186,825 |
| Other, net | (2,023) | 688 |
| Net cash provided by financing activities | 234,233 | 1,338,304 |

| | | |
|--|-----------|-----------|
| Net increase in cash and cash equivalents | 773 | 350,692 |
| Cash and cash equivalents at beginning of the period | 436,145 | 187,616 |
| Cash and cash equivalents at end of the period | \$436,918 | \$538,308 |

Supplementary cash flow data:

| | | |
|-------------------|-----------|-----------|
| Income taxes paid | \$176,168 | \$162,902 |
| Interest paid | 55,193 | 72,896 |

H&R Block, Inc.

Consolidated Statements of Operations

Unaudited, amounts in thousands, except per share data

| | Three Months Ended | | Nine Months Ended | |
|----------------------------------|--------------------|-----------|-------------------|-----------|
| | January 31, | | January 31, | |
| | 2003 | 2002 | 2003 | 2002 |
| Revenues: | | | | |
| Service revenues | \$510,042 | \$484,857 | \$907,015 | \$838,324 |
| Gain on sale of mortgage assets: | | | | |
| Mortgage loans | 175,483 | 107,882 | 471,868 | 322,302 |
| Residual interests | 130,881 | - | 130,881 | - |
| Interest income | 57,230 | 54,030 | 228,176 | 148,122 |
| Product sales | 43,312 | 41,967 | 74,234 | 63,718 |
| Royalties | 39,026 | 33,329 | 43,082 | 37,772 |
| Other income | 2,439 | 11,467 | 5,919 | 26,171 |
| | 958,413 | 733,532 | 1,861,175 | 1,436,409 |

Operating expenses:

Employee compensation and

| | | | | |
|-----------------------------------|-----------|----------|-----------|------------|
| benefits | 352,209 | 321,353 | 791,692 | 698,069 |
| Occupancy and equipment | 87,349 | 72,678 | 223,642 | 194,106 |
| Operating interest | 2,585 | 3,904 | 9,739 | 19,972 |
| Other interest | 22,232 | 26,829 | 60,050 | 70,351 |
| Depreciation and amortization | 42,670 | 38,167 | 114,738 | 107,095 |
| Marketing and advertising | 55,331 | 51,905 | 85,335 | 74,966 |
| Supplies, freight and postage | 33,154 | 22,008 | 55,472 | 38,051 |
| Bad debt provision | 25,457 | 33,095 | 40,472 | 50,194 |
| Impairment of goodwill | - | - | 24,000 | - |
| Texas RAL litigation | - | - | 41,672 | - |
| Other | 117,134 | 114,647 | 274,156 | 235,839 |
| | 738,121 | 684,586 | 1,720,968 | 1,488,643 |
| Operating earnings (loss) | 220,292 | 48,946 | 140,207 | (52,234) |
| Other income, net | 2,642 | 828 | 4,576 | 3,193 |
| Earnings (loss) before income tax | 222,934 | 49,774 | 144,783 | (49,041) |
| Income tax (benefit) | 90,621 | 20,158 | 59,361 | (19,862) |
| Net earnings (loss) | \$132,313 | \$29,616 | \$85,422 | \$(29,179) |
| Basic earnings (loss) per share | \$0.74 | \$0.16 | \$0.48 | \$(0.16) |
| Basic shares outstanding | 178,770 | 182,936 | 179,620 | 183,028 |
| Diluted earnings (loss) per share | \$0.73 | \$0.16 | \$0.46 | \$(0.16) |
| Diluted shares outstanding | 182,173 | 188,181 | 184,378 | 183,028 |

H&R BLOCK, INC.
FINANCIAL SERVICES OPERATING DATA
Unaudited

H&R Block Financial Advisors, Inc.

| | For the three months ended | | | |
|---|----------------------------|-----------|----------|------------|
| | 1/31/2003 | 1/25/2002 | % Change | 10/25/2002 |
| Customer trades | 309,119 | 402,061 | -23.1% | 292,880 |
| Customer daily average trades | 4,638 | 6,241 | -25.7% | 4,576 |
| Average revenue per trade | \$115.57 | \$100.53 | 15.0% | \$119.21 |
| Number of active accounts | 670,000 | 602,618 | 11.2% | 710,495 |
| Average trades per active account per quarter | 0.46 | 0.67 | -31.1% | 0.41 |
| Average trades per active account per year (annualized) | 1.83 | 2.67 | -31.4% | 1.65 |
| Ending balance of assets under administration (\$ bn's) | \$21.0 | \$27.2 | -22.9% | \$21.4 |
| Average assets per active account | \$31,397 | \$45,191 | -30.5% | \$30,102 |
| Ending customer margin balances (\$ bn's) | \$0.5 | \$0.9 | -43.1% | \$0.5 |
| Ending payables to customers (\$ bn's) | \$0.8 | \$0.9 | -7.5% | \$0.8 |

Option One Mortgage

Corporation

For the three months ended
1/31/2003 1/31/2002 % Change 10/31/2002

| | | | | |
|---------------------------------------|-------------|-------------|-------|-------------|
| Number of loans originated | | | | |
| Wholesale (non-prime) | 25,061 | 17,344 | 44.5% | 21,536 |
| Retail | | | | |
| Prime | 3,560 | 2,229 | 59.7% | 3,089 |
| Non-prime | 2,284 | 1,827 | 25.0% | 2,754 |
| Total | 30,905 | 21,400 | 44.4% | 27,379 |
| Volume of loans originated (000's) | | | | |
| Wholesale (non-prime) | \$3,756,809 | \$2,346,687 | 60.1% | \$3,083,895 |
| Retail | | | | |
| Prime | 496,176 | 337,993 | 46.8% | 444,469 |
| Non-prime | 280,738 | 211,119 | 33.0% | 351,694 |
| Total | \$4,533,723 | \$2,895,799 | 56.6% | \$3,880,058 |
| Loan sales | \$4,599,255 | \$2,868,690 | 60.3% | \$3,821,649 |
| Servicing portfolio | | | | |
| Number of loans serviced (000's) | 233.0 | 202.4 | 15.1% | 220.8 |
| Servicing portfolio (\$ bn's) | \$28.9 | \$22.7 | 27.3% | \$26.7 |

H&R BLOCK, INC.
MORTGAGE OPERATIONS
Supplemental Information
Unaudited

| | | | | |
|---|---------------------|---------------------|---------------------|---------------------|
| Key ratios | Three Months Ended | | Nine Months Ended | |
| | January 31, 2003 | January 31, 2002 | January 31, 2003 | January 31, 2002 |
| Closing ratio | 57.3% | 50.7% | 53.2% | 50.9% |
| Weighted average FICO score (a) | 605.9 | 596.7 | 603.0 | 599.9 |
| Execution price - net gain on sale (b) | 4.60% | 3.82% | 4.49% | 4.30% |
| Weighted average coupon rate for borrowers (a) | 7.94% | 8.82% | 8.30% | 9.22% |
| Operating profit margin (c) | 2.70% | 2.28% | 3.08% | 2.77% |
| Weighted average loan-to-value (a) | 78.6% | 77.7% | 78.9% | 78.5% |

(a) Represents non-prime production.

(b) Defined as total premium received divided by total balance of loans delivered (excluding mortgage servicing rights).

(c) Defined as pretax earnings before accretion on residual write-ups divided by the volume of loans originated.

H&R Block, Inc.
Preliminary U.S. Tax Operating Data
Amounts in thousands, except average charge and number of offices

| | | | |
|--------------------------------|-----------|-----------|-------------|
| | | Period | |
| | 1/1-1/31 | 2/1-2/15 | YTD 2/15 |
| Tax preparation & related fees | | | |
| Fiscal year 2003 | | | |
| Company owned offices | \$287,698 | \$366,075 | \$653,773 |
| Franchised offices | 173,731 | 209,522 | 383,253 |
| | \$461,429 | \$575,597 | \$1,037,026 |
| Fiscal year 2002 | | | |
| Company owned offices | \$260,155 | \$356,120 | \$616,275 |
| Franchised offices | 148,706 | 199,176 | 347,882 |

| | | | |
|------------------------------------|-----------|-----------|-----------|
| | \$408,861 | \$555,296 | \$964,157 |
| Percent change | | | |
| Company owned offices | 10.6% | 2.8% | 6.1% |
| Franchised offices | 16.8% | 5.2% | 10.2% |
| Total | 12.9% | 3.7% | 7.6% |
| Tax returns prepared | | | |
| Fiscal year 2003 | | | |
| Company owned offices | 2,202 | 2,702 | 4,904 |
| Franchised offices | 1,460 | 1,764 | 3,224 |
| | 3,662 | 4,466 | 8,128 |
| Fiscal year 2002 | | | |
| Company owned offices | 2,133 | 2,877 | 5,010 |
| Franchised offices | 1,350 | 1,811 | 3,161 |
| | 3,483 | 4,688 | 8,171 |
| Percent change | | | |
| Company owned offices | 3.2% | -6.1% | -2.1% |
| Franchised offices | 8.2% | -2.6% | 2.0% |
| Total | 5.1% | -4.7% | -0.5% |
| Total clients served | | | |
| Fiscal year 2003 | | | |
| Company owned offices | 2,218 | 2,725 | 4,943 |
| Franchised offices | 1,497 | 1,808 | 3,305 |
| E-commerce * | 239 | 596 | 835 |
| | 3,954 | 5,129 | 9,083 |
| Fiscal year 2002 | | | |
| Company owned offices | 2,152 | 2,907 | 5,059 |
| Franchised offices | 1,403 | 1,872 | 3,275 |
| E-commerce * | 143 | 414 | 557 |
| | 3,698 | 5,193 | 8,891 |
| Percent change | | | |
| Company owned offices | 3.1% | -6.3% | -2.3% |
| Franchised offices | 6.7% | -3.4% | 0.9% |
| E-commerce * | 67.1% | 44.0% | 49.9% |
| Total | 6.9% | -1.2% | 2.2% |
| Tax returns filed electronically** | | | |
| Fiscal year 2003 | | | |
| Company owned offices | 2,159 | 2,599 | 4,758 |
| Franchised offices | 1,441 | 1,671 | 3,112 |
| E-commerce * | 167 | 610 | 777 |
| | 3,767 | 4,880 | 8,647 |
| Fiscal year 2002 | | | |
| Company owned offices | 2,084 | 2,730 | 4,814 |
| Franchised offices | 1,330 | 1,671 | 3,001 |
| E-commerce * | 119 | 382 | 501 |
| | 3,533 | 4,783 | 8,316 |
| Percent change | | | |
| Company owned offices | 3.6% | -4.8% | -1.2% |
| Franchised offices | 8.4% | 0.0% | 3.7% |
| E-commerce * | 40.3% | 59.7% | 55.1% |
| Total | 6.6% | 2.0% | 4.0% |
| Percent filed electronically **** | | | |
| Fiscal year 2003 | | | |
| Company owned offices | 97.3% | 95.4% | 96.3% |
| Franchised offices | 96.3% | 92.4% | 94.2% |
| E-commerce * | 69.9% | 102.3% | 93.1% |
| | 95.3% | 95.1% | 95.2% |
| Fiscal year 2002 | | | |
| Company owned offices | 96.8% | 93.9% | 95.2% |

| | | | |
|--------------------|-------|-------|-------|
| Franchised offices | 94.8% | 89.3% | 91.6% |
| E-commerce * | 83.2% | 92.3% | 89.9% |
| | 95.5% | 92.1% | 93.5% |

Average fee per client served

Fiscal year 2003

| | | | |
|-----------------------|----------|----------|----------|
| Company owned offices | \$129.71 | \$134.34 | \$132.26 |
| Franchised offices | 116.05 | 115.89 | 115.96 |
| | \$124.21 | \$126.98 | \$125.73 |

Fiscal year 2002

| | | | |
|-----------------------|----------|----------|----------|
| Company owned offices | \$120.89 | \$122.50 | \$121.82 |
| Franchised offices | 105.99 | 106.40 | 106.22 |
| | \$115.01 | \$116.20 | \$115.69 |

Percent change

| | | | |
|-----------------------|------|------|------|
| Company owned offices | 7.3% | 9.7% | 8.6% |
| Franchised offices | 9.5% | 8.9% | 9.2% |
| Total | 8.0% | 9.3% | 8.7% |

Average fee per tax return ***

Fiscal year 2003

| | | | |
|-----------------------|----------|----------|----------|
| Company owned offices | \$106.94 | \$118.98 | \$113.57 |
| Franchised offices | 97.30 | 103.24 | 100.55 |
| | \$103.09 | \$112.76 | \$108.41 |

Fiscal year 2002

| | | | |
|-----------------------|---------|----------|----------|
| Company owned offices | \$97.48 | \$106.34 | \$102.56 |
| Franchised offices | 87.03 | 93.16 | 90.54 |
| | \$93.43 | \$101.24 | \$97.91 |

Percent change

| | | | |
|-----------------------|-------|-------|-------|
| Company owned offices | 9.7% | 11.9% | 10.7% |
| Franchised offices | 11.8% | 10.8% | 11.1% |
| Total | 10.4% | 11.4% | 10.7% |

Refund anticipation loans

Fiscal year 2003

| | | | |
|-----------------------|-------|-------|-------|
| Company owned offices | 1,146 | 1,148 | 2,294 |
| Franchised offices | 784 | 742 | 1,526 |
| E-commerce * | 19 | 29 | 48 |
| | 1,949 | 1,919 | 3,868 |

Fiscal year 2002

| | | | |
|-----------------------|-------|-------|-------|
| Company owned offices | 1,092 | 1,193 | 2,285 |
| Franchised offices | 709 | 753 | 1,462 |
| E-commerce * | 8 | 16 | 24 |
| | 1,809 | 1,962 | 3,771 |

Percent change

| | | | |
|-----------------------|--------|-------|--------|
| Company owned offices | 5.0% | -3.8% | 0.4% |
| Franchised offices | 10.6% | -1.5% | 4.4% |
| E-commerce * | 137.5% | 81.3% | 100.0% |
| Total | 7.7% | -2.2% | 2.6% |

Offices

| | | |
|-----------------------|---------|---------|
| | FY 2003 | FY 2002 |
| Company owned offices | 5,279 | 5,017 |
| Franchised offices | 4,022 | 3,998 |
| | 9,301 | 9,015 |

* Includes on-line completed and paid returns and e-filings for software clients. Excludes returns completed for no fee.

** Includes Federal only. State returns also electronically filed are not included in this total.

*** Includes tax preparation fees only.

**** Clients served are based on payment date. Returns filed electronically are based on filing date. As such, percent filed electronically may exceed 100% in an interim period.

SOURCE H&R Block Inc.

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