SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED JANUARY 31, 2001

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM ______________ TO ______________

COMMISSION FILE NUMBER 1-6089

H&R BLOCK, INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

MISSOURI	44-0607856
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(I.R.S. EMPLOYER IDENTIFICATION NO.)

4400 MAIN STREET
KANSAS CITY, MISSOURI 64111
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES, INCLUDING ZIP CODE)

(816) 753-6900
(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

The number of shares outstanding of the registrant's Common Stock, without par value, at the close of business on February 28, 2001 was 91,377,167 shares.

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H&R BLOCK, INC.
CONSOLIDATED BALANCE SHEETS
AMOUNTS IN THOUSANDS, EXCEPT SHARE AMOUNTS

ASSETS	JANUARY 31, 2001 (UNAUDITED)	APRIL 30, 2000 (AUDITED)
CURRENT ASSETS		
Cash and cash equivalents	$ 380,918	$ 379,901
Marketable securities - available-for-sale	8,288	16,966
Marketable securities - trading	42,690	45,403
Receivables from customers, brokers, dealers and clearing organizations, less allowance for doubtful accounts of $878 and $759	1,913,319	2,857,379
Receivables, less allowance for doubtful accounts of $37,042 and $49,602	1,072,466	434,722
Prepaid expenses and other current assets	182,149	129,172
TOTAL CURRENT ASSETS	3,599,830	3,863,543
INVESTMENTS AND OTHER ASSETS		
Investments in available-for-sale marketable securities	227,416	176,395
Excess of cost over fair value of net tangible assets acquired, net of accumulated amortization	1,069,302	1,095,074
Other	400,916	303,672
	1,697,634	1,575,141
PROPERTY AND EQUIPMENT, at cost less accumulated depreciation and amortization	245,059	260,666
	$ 5,542,523	$ 5,699,350

LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Notes payable	$ 1,626,806	$ 283,797
Accounts payable to customers, brokers and dealers	1,626,612	2,570,200
Accounts payable, accrued expenses and deposits	294,930	222,362
Accrued salaries, wages and payroll taxes	141,744	173,333
Accrued taxes on earnings	8,145	202,779
Current portion of long-term debt	50,419	67,978
TOTAL CURRENT LIABILITIES	3,748,656	3,520,449
LONG-TERM DEBT	869,249	872,396
OTHER NONCURRENT LIABILITIES	100,328	87,916
STOCKHOLDERS' EQUITY		
Common stock, no par, stated value $.01 per share	1,089	1,089
Additional paid-in capital	419,517	420,594
Retained earnings	1,101,135	1,277,324
Accumulated other comprehensive income (loss)	(24,476)	(26,241)
	1,497,265	1,672,766
Less cost of 17,647,006 and 10,937,683 shares of common stock in treasury	672,975	454,177
	824,290	1,218,589
	$ 5,542,523	$ 5,699,350

See Notes to Consolidated Financial Statements

H&R BLOCK, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
UNAUDITED, AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS

	THREE MONTHS ENDED JANUARY 31, 2001	THREE MONTHS ENDED JANUARY 31, 2000
REVENUES		
Service revenues	$ 503,733	$ 406,564
Product revenues	117,360	81,941
Royalties	28,633	16,124
Other	11,628	7,878
	661,354	512,507
OPERATING EXPENSES		
Employee compensation and benefits	305,404	230,943
Occupancy and equipment	63,717	63,842
Interest	68,048	50,271
Depreciation and amortization	52,848	36,539
Marketing and advertising	37,598	39,221
Supplies, freight and postage	19,539	26,755
Bad debt	29,194	15,937
Other	78,349	64,148
	654,697	527,656
Operating earnings (loss)	6,657	(15,149)
OTHER INCOME		
Investment income, net	1,099	1,517
Other, net	2,060	109
	3,159	1,626
Earnings (loss) before income taxes (benefit)	9,816	(13,523)
Income taxes (benefit)	4,171	(6,448)
Net earnings (loss)	$ 5,645	$ (7,075)
Basic net earnings (loss) per share	$ .06	$ (.07)
Diluted net earnings (loss) per share	$ .06	$ (.07)
Dividends per share	$ .30	$ .275

See Notes to Consolidated Financial Statements

H&R BLOCK, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
UNAUDITED, AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS

	NINE MONTHS ENDED JANUARY 31,	
	2001	2000
REVENUES		
Service revenues	$ 1,009,831	$ 632,766
Product revenues	225,429	176,182
Royalties	33,791	20,264
Other	33,887	14,801
	1,302,938	844,013
OPERATING EXPENSES		
Employee compensation and benefits	624,844	424,601
Occupancy and equipment	180,175	152,036
Interest	195,219	85,089
Depreciation and amortization	148,990	79,270
Marketing and advertising	62,100	59,076
Supplies, freight and postage	37,123	39,646
Bad debt	43,448	26,058
Other	185,983	130,643
	1,477,882	996,419
Operating loss	(174,944)	(152,406)
OTHER INCOME		
Investment income, net	6,354	6,570
Other, net	2,057	359
	8,411	6,929
Loss before income tax benefit	(166,533)	(145,477)
Income tax benefit	(70,777)	(56,591)
Net loss	$ (95,756)	$ (88,886)
Basic and diluted net loss per share	$ (1.04)	$ (.91)
Dividends per share	$ .875	$ .80

See Notes to Consolidated Financial Statements

H&R BLOCK, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
UNAUDITED, AMOUNTS IN THOUSANDS

	NINE MONTHS ENDED JANUARY 31,	
	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (95,756)	$ (88,886)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	148,990	79,270

Net gain on sale of subsidiary	(2,040)	-
Provision for bad debt	43,448	26,058
Accretion of acquisition liabilities	8,766	7,266
Changes in:		
Receivables from customers, brokers, dealers and clearing organizations	942,791	(423,288)
Receivables	(836,004)	(519,942)
Marketable securities - trading	2,713	7,413
Prepaid expenses and other current assets	(53,877)	(54,171)
Accounts payable to customers, brokers and dealers	(943,588)	403,954
Accounts payable, accrued expenses and deposits	72,219	(56,815)
Accrued salaries, wages and payroll taxes	(31,185)	(81,032)
Accrued taxes on earnings	(204,753)	(144,933)
Other, net	(2,396)	(7,771)
NET CASH USED IN OPERATING ACTIVITIES	(950,672)	(852,877)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of available-for-sale securities	(5,413)	(3,797)
Maturities of marketable securities	32,375	33,003
Purchases of property and equipment	(44,669)	(68,855)
Payments made for business acquisitions, net of cash acquired	(13,285)	(960,518)
Proceeds from sale of subsidiary	23,200	-
Other, net	(16,685)	(9,837)
NET CASH USED IN INVESTING ACTIVITIES	(24,477)	(1,010,004)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of notes payable	(11,864,855)	(31,187,422)
Proceeds from issuance of notes payable	13,207,864	33,210,422
Payments on acquisition debt	(67,643)	(3,278)
Dividends paid	(80,433)	(78,811)
Payments to acquire treasury shares	(222,894)	(32,366)
Proceeds from stock options exercised	3,019	36,178
Other, net	1,108	658
NET CASH PROVIDED BY FINANCING ACTIVITIES	976,166	1,945,381
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,017	82,500
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	379,901	193,240
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	$ 380,918	$ 275,740
SUPPLEMENTAL CASH FLOW DISCLOSURES:		
Income taxes paid	$ 123,296	$ 87,168
Interest paid	173,137	79,672

See Notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Unaudited, dollars in thousands, except share data

1. The Consolidated Balance Sheet as of January 31, 2001, the Consolidated Statements of Operations for the three and nine months ended January 31, 2001 and 2000, and the Consolidated Statements of Cash Flows for the nine months ended January 31, 2001 and 2000 have been prepared by the Company, without audit. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows at January 31, 2001 and for all periods presented have been made.

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

   Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. These consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's April 30, 2000 Annual Report to Shareholders.

   Operating revenues of U.S. tax operations and Business services are seasonal in nature with peak revenues occurring in the months of January through April. Thus, the nine-month results are not indicative of results to be expected for the year.

2. Receivables consist of the following:

	January 31, 2001 (Unaudited)	April 30, 2000 (Audited)
Mortgage loans held for sale	$ 173,471	$ 163,033
Participation in refund anticipation loans	548,540	47,581
Business services accounts receivable	156,378	148,109
Tax related fees due from Household Bank	75,561	3,878
Loans to franchisees	40,735	24,888
Other	114,823	96,835
	1,109,508	484,324
Allowance for doubtful accounts	37,042	49,602
	$ 1,072,466	$ 434,722

3. The Company files its Federal and state income tax returns on a calendar year basis. The Consolidated Statements of Operations reflect the effective tax rates expected to be applicable for the respective full fiscal years.

4. Basic net earnings (loss) per share is computed using the weighted average number of shares outstanding during each period. The dilutive effect of potential common shares is included in diluted net earnings per share. The computations of basic and diluted net earnings per share are as follows (shares in thousands):

	Three months ended January 31,		Nine months ended January 31,	
	2001	2000	2001	2000
Net earnings (loss)	$ 5,645	$ (7,075)	$ (95,756)	$ (88,886)
Basic weighted average shares	91,299	98,358	91,988	97,962
Effect of dilutive securities:				
Common stock options	736	-	-	-
Convertible preferred stock	1	-	-	-
Dilutive potential shares	92,036	98,358	91,988	97,962
Net earnings (loss) per share:				
Basic	$ .06	$ (.07)	$ (1.04)	$ (.91)
Diluted	.06	(.07)	(1.04)	(.91)

Diluted net earnings (loss) per share excludes the impact of common stock options outstanding of 5,251,323 shares for the three months ended January 31, 2001 and 9,990,380 shares and the conversion of 608 shares of preferred stock to common stock for the nine months ended January 31, 2001, as they are antidilutive. Diluted net loss per share excludes the impact of common stock options outstanding of 8,464,234 shares and the conversion of 608 shares of preferred stock to common stock for the three and nine months ended January 31, 2000, as they are antidilutive.

The weighted average shares outstanding for the nine months ended January 31, 2001 decreased to 91,988,000 from 97,962,000 last year, due to the purchase of treasury shares by the Company predominantly during the first three months of fiscal 2001.

5. During the nine months ended January 31, 2001 and 2000, the Company issued 106,775 and 953,865 shares, respectively, pursuant to provisions for exercise of stock options under its stock option plans. In addition, the Company issued 475,443 shares of its common stock for an U.S. tax operations' major franchise acquisition in the second quarter of fiscal 2000. The issuance of common stock for the acquisition was treated as a noncash investing activity in the Consolidated Statement of Cash Flows for the nine months ended January 31, 2000. During the nine months ended January 31, 2001, the Company acquired 6,816,098 shares of its common stock

at an aggregate cost of $222,894. During the nine months ended January 31, 2000, the Company acquired 721,800 shares of its common stock at an aggregate cost of $32,366.

6. CompuServe Corporation (CompuServe), certain current and former officers and directors of CompuServe and the Company were named as defendants in six lawsuits pending before the state and Federal courts in Columbus, Ohio. All suits alleged similar violations of the Securities Act of 1933 based on assertions of omissions and misstatements of fact in connection with CompuServe's public filings related to its initial public offering in April 1996. One state lawsuit brought by the Florida State Board of Administration also alleged certain oral omissions and misstatements in connection with such offering. Relief sought in the lawsuits was unspecified, but included pleas for rescission and damages.

   In July 2000, the class representatives and the defendants in the class action pending in state court, by their authorized counsel, entered into a Stipulation of Settlement, pursuant to which the defendants were required to pay a gross settlement amount of $9,500 in exchange for dismissal of the class action suit and a release of all claims. The court preliminarily approved the settlement in August 2000 and notices to the class were mailed and published. The fairness hearing relating to the settlement was held on November 30, 2000, and the court issued its order approving the settlement. Payment of plaintiffs' attorneys' fees and expenses were to be paid out of the gross settlement fund. The gross settlement fund was paid in its entirety by the Company's insurance carrier. The Stipulation and payment of the gross settlement fund are not admissions of the validity of any claim or any fact alleged by the plaintiffs and defendants continue to deny any wrongdoing and any liability. The Stipulation states that the defendants consider it desirable to settle to avoid further expense, inconvenience, and delay, and put to rest all controversy concerning all claims.

   The Florida State Board of Administration opted out of the class action settlement and that litigation continues separately from the state court class action. The parties have reached a settlement that will dispose of the case in its entirety with no material adverse impact on the Company's consolidated financial position or results of operations.

7. Summarized financial information for Block Financial Corporation, an indirect, wholly owned subsidiary of the Company, is presented below.

	January 31, 2001 (Unaudited)	April 30, 2000 (Audited)
Condensed balance sheets:		
Cash and cash equivalents	$ 255,138	$ 256,823
Finance receivables, net	2,648,234	3,054,792
Other assets	1,629,813	1,247,710
Total assets	$ 4,533,185	$ 4,559,325
Notes payable	$ 1,626,806	$ 283,797
Long-term debt	746,088	745,600
Other liabilities	1,920,190	3,304,740
Stockholder's equity	240,101	225,188
Total liabilities and stockholder's equity	$ 4,533,185	$ 4,559,325

	Three months ended January 31,		Nine months ended January 31,	
	2001	2000	2001	2000
Condensed statements of operations:				
Revenues	$ 283,316	$ 220,892	$ 709,581	$ 394,716
Earnings before income taxes	28,653	26,336	37,625	51,626
Net earnings	14,043	19,710	10,350	34,846

8. The Company utilizes forward contracts on FNMA mortgage-backed securities to reduce interest rate risk related to its fixed rate mortgage portfolio. The position on certain or all of the fixed rate mortgages is closed, on standard Public Securities Association (PSA) settlement dates, when the Company enters into a forward commitment to sell those mortgages or decides to securitize the mortgages. The Company in the past had applied hedge accounting treatment for these forward contracts, however, these instruments no longer qualify for hedge accounting treatment because the Company does not hold the mortgage loans on its balance sheet (the asset that was being hedged). These instruments are now carried at fair market value and changes in the fair market value are recorded in revenues on the income statement instead of being deferred. There are no FNMA forward contracts open at January 31, 2001. The contract value and market value of the forward commitment at January 31, 2001 were $185,000 and $184,525, respectively.

9. The Company's comprehensive income is comprised of net earnings (loss), foreign currency translation adjustments and the change in the net unrealized gain or loss on marketable securities. The components of comprehensive income (loss) during the three and nine months ended January 31, 2001 and 2000 were:

	Three months ended January 31,		Nine months ended January 31,	
	2001	2000	2001	2000
Net earnings (loss)	$ 5,645	$ (7,075)	$ (95,756)	$ (88,886)
Change in net unrealized gain (loss) on mkt. securities	9,027	(3,390)	7,414	1,867
Change in foreign currency translation adjustments	526	2,474	(5,649)	4,304
Comprehensive income (loss)	$ 15,198	$ (7,991)	$ (93,991)	$ (82,715)

10. In July 2000, the Emerging Issues Task Force (EITF) reached a consensus on Issue 99-20, "Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets" (EITF 99-20), and subsequently clarified its consensus in September 2000, November 2000 and January 2001. EITF 99-20 addresses how the holder of beneficial interests should recognize cash flows on the date of the transaction and how interest income is recognized over the life of the interests. EITF 99-20 will be effective for the Company in the first quarter of fiscal year 2002. The Company has not yet determined the effect of EITF 99-20 on the consolidated financial statements.

11. In September 2000, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" (SFAS 140). SFAS 140 is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001 and is effective for recognition and reclassification of collateral and for disclosures relating to securitization transactions and

collateral for fiscal years ending after December 15, 2000. SFAS 140 is a replacement of Statement of Financial Accounting Standards No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" (SFAS 125). SFAS 140 revises the standards for accounting for securitizations and other transfers of financial assets and collateral and requires certain new disclosures, but carries over most of the SFAS 125 provisions without reconsideration. The Company has adopted the disclosure requirements of SFAS 140 as of January 31, 2001. Disclosures relating to mortgage servicing assets and liabilities have been omitted because they are immaterial. The Company believes that the implementation of SFAS 140 in the fourth quarter of fiscal year 2001 will not have a material impact on the consolidated financial statements.

12. Included in Investments in available-for-sale marketable securities on the Consolidated Balance Sheets as of January 31, 2001 and April 30, 2000 are residual interests in securitizations (residuals) of real estate mortgage investment conduits (REMICs). The Company estimates future cash flows from these residuals and values them utilizing assumptions that it believes are consistent with those that would be utilized by an unaffiliated third-party purchaser and records them as available-for-sale securities at fair value in accordance with Statement of Financial Accounting Standards No. 115, "Accounting for Certain Debt and Equity Securities." Unrealized gains and losses are included in Other Comprehensive Income. If losses are determined to be other-than-temporary, the residual is written down to fair value with the realized loss included in the Consolidated Statement of Operations.

    The fair value of residuals is determined by computing the present value of the excess of the weighted average coupon on the loans sold over the sum of (1) the coupon on the senior interests, (2) a base servicing fee paid to the servicer of the loans (which is usually the Company), (3) expected losses to be incurred on the portfolio of the loans sold (as projected to occur) over the lives of the loans, (4) fees payable to the trustee and insurer, (5) estimated collections of prepayment penalty fees, and (6) other fees. Prepayment and loss assumptions used in estimating the cash flows are based on evaluation of the actual experience of the Company's servicing portfolio or on market rates on new portfolios, taking into consideration the current and expected interest rate environment and its expected impact on future prepayment and default rates. The estimated cash flows expected to be received by the Company are discounted at an interest rate the Company believes an unaffiliated third-party purchaser would require as a rate of return on such a financial instrument. To the extent that actual future excess cash flows are different from estimated excess cash flows, the fair value of the Company's residual could increase or decrease. The key assumptions the Company utilizes to estimate the cash flows of the residual interests are as follows:

Estimated annual prepayments	23% to 75%
Estimated annual credit losses	.5% to 2.90%
Discount rate	12% to 15%

The fair value of the residuals at January 31, 2001 and April 30, 2000 were $196,222 and $123,043, respectively. At January 31, 2001, the sensitivity of the current fair value of the residuals to 10% and 20% adverse changes in the above key assumptions are as follows:

	Residential Mortgage Loans Fixed & Adjustable Rate
Carrying amount/fair value of residuals	$ 196,222
Weighted average life (in years)	3.6

Annual prepayments:		
Adverse 10% - $ impact on fair value	$	(7,566)
Adverse 20% - $ impact on fair value		(12,819)
Annual credit losses:		
Adverse 10% - $ impact on fair value	$	(4,257)
Adverse 20% - $ impact on fair value		(7,683)
Discount rate:		
Adverse 10% - $ impact on fair value	$	(5,479)
Adverse 20% - $ impact on fair value		(9,960)
Variable interest rates:		
Adverse 10% - $ impact on fair value	$	(9,159)
Adverse 20% - $ impact on fair value		(17,319)

Sensitivity analysis for favorable changes of 10% and 20% in the key assumptions would approximate the above dollar amounts having a positive impact on fair value instead of a negative impact. The Company's residuals consist mainly of residuals whose collateral is cross-collateralized, therefore the sensitivity analysis for fixed and adjustable rate mortgages is combined. These sensitivities are hypothetical and should be used with caution. As the figures indicate, changes in fair value based on a 10% variation in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also in this table, the effect of a variation of a particular assumption on the fair value of the retained interest is calculated without changing any other assumptions; in reality, changes in one factor may result in changes in another, which might magnify or counteract the sensitivities.

13. In December 1999, the Securities and Exchange Commission (SEC) issued SEC Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" (SAB 101). SAB 101 summarizes certain of the SEC's views in applying generally accepted accounting principles to revenue recognition in financial statements. SAB 101 will be effective for the Company in the fourth quarter of fiscal year 2001. The Company believes that implementing SAB 101 in the fourth quarter will be immaterial to results of operations, financial position and cash flows for fiscal year 2001.

14. During the third quarter of fiscal 2001, management reevaluated its reportable operating segments to more closely reflect how the Company's business is now analyzed and evaluated under the guidance of Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information." As a result, the Company's Financial services segment is now separated into Mortgage operations and Investment services. Mortgage operations includes all of the Company's wholesale and retail mortgage operations. This segment is primarily engaged in the origination, servicing, and sale of nonconforming and conforming mortgage loans offered though a network of mortgage brokers, through H&R Block Financial Centers and through H&R Block Mortgage Corporation retail offices. Investment services essentially consists of H&R Block Financial Advisors, Inc. (formerly OLDE Discount Corporation). This segment is primarily engaged in offering full-service investment opportunities to the general public. Financial planning and investment advice are offered through H&R Block Financial Centers, H&R Block Financial Advisor offices and tax offices, and stocks, bonds, mutual funds and other products and securities are offered though a nationwide network of registered representatives, including representatives located at H&R Block Financial Centers and tax offices.

15. Information concerning the Company's operations by reportable operating segments for the three and nine months ended January 31, 2001 and 2000 is as follows:

	Three months ended January 31,		Nine months ended January 31,	
	2001	2000	2001	2000
Revenues:				

U.S. tax operations	$ 327,310	$ 237,851	$ 365,063	$ 270,649
International tax operations	7,857	8,478	27,655	27,259
Mortgage operations	114,169	85,643	279,459	249,917
Investment services	118,164	96,776	380,404	103,459
Business services	92,729	82,806	247,093	190,165
Unallocated corporate	1,125	953	3,264	2,564
	$ 661,354	$ 512,507	$ 1,302,938	$ 844,013
Earnings (loss) from:				
U.S. tax operations	$ 7,438	$ (29,427)	$ (167,635)	$ (184,160)
International tax operations	(6,141)	(7,134)	(12,531)	(15,299)
Mortgage operations	38,317	24,998	80,843	69,451
Investment services	6,609	18,978	31,449	14,282
Business services	1,063	3,135	(2,731)	1,795
Unallocated corporate	(11,418)	(6,671)	(22,758)	(13,448)
Interest exp-acquisition debt	(23,988)	(19,451)	(75,760)	(31,916)
	11,880	(15,572)	(169,123)	(159,295)
Investment income, net	1,099	1,517	6,354	6,570
Intercompany interest	(3,163)	532	(3,764)	7,248
Earnings (loss) before income taxes (benefit)	$ 9,816	$ (13,523)	$ (166,533)	$ (145,477)

Intercompany interest represents net interest expense charged to financial related businesses for corporate cash that was borrowed to fund their operating activities and, in fiscal 2001, it also includes net unallocated interest expense attributable to commitment fees on the unused portion of the Company's credit facility.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

OVERVIEW OF REPORTABLE OPERATING SEGMENTS

The principal business activity of the Company's operating subsidiaries is providing tax and financial services to the general public. The Company operates in the following reportable segments:

U.S. tax operations: This segment primarily consists of the Company's traditional tax business - which served 16.9 million taxpayers in fiscal year 2000, more than any other company. This segment is primarily engaged in providing tax return preparation, filing, and related services in the United States. Tax-related service revenues include fees from company-owned tax offices and royalties from franchised offices. This segment also participates in the refund anticipation loan products offered by a third-party lending institution to tax clients. This segment includes the Company's tax preparation software - Kiplinger TaxCut(R) from H&R Block, other personal productivity software, online tax preparation through a tax preparer (whereby the client fills out an online tax organizer and sends it to a tax preparer for preparation), online do-it-yourself-tax preparation, online professional tax review and online tax advice through the hrblock.com website. Revenues from this segment are seasonal.

International tax operations: This segment is primarily engaged in providing local tax return preparation, filing and related services in Canada, Australia and the United Kingdom. In addition, there are franchise offices in 10 countries that prepare U.S. tax returns for U.S. citizens living abroad. Tax-related service revenues include fees from company-owned tax offices and royalties from franchised offices. Revenues from this segment are seasonal.

Mortgage operations: This segment is primarily engaged in the origination, servicing, and sale of nonconforming and conforming mortgage loans. This segment mainly offers a flexible product line to borrowers who are creditworthy but do not meet traditional underwriting criteria through a network of mortgage brokers. Conforming mortgage loan products, as well as the same flexible product line available through brokers are offered through H&R Block Financial Centers and H&R Block Mortgage Corporation retail offices.

Investment services: This segment is primarily engaged in offering full service investment advice through H&R Block Financial Advisors, Inc., a full-service discount securities broker. Financial planning and investment advice are offered through H&R Block Financial Centers, H&R Block Financial Advisors offices and tax offices, and stocks,

bonds, mutual funds and other products and securities are offered through a nationwide network of registered representatives, at the same locations.

Business services: This segment is primarily engaged in providing accounting, tax and consulting services to business clients and tax, estate planning and financial planning services to individuals. Revenues from this segment are seasonal.

FINANCIAL CONDITION

These comments should be read in conjunction with the Consolidated Balance Sheets and Consolidated Statements of Cash Flows found on pages 1 and 4, respectively.

LIQUIDITY

Working capital decreased to a negative $151.1 million at January 31, 2001 from $343.1 million at April 30, 2000. The working capital ratio at January 31, 2001 is .96 to 1, compared to 1.10 to 1 at April 30, 2000. The decrease in working capital and the working capital ratio is attributable to the increase in short-term borrowings due to the seasonal nature of the Company's U.S. tax operations segment, including Refund Anticipation Loan (RAL) participations, payments on Business services acquisitions, the share repurchase program and interest, tax and dividend payments. In addition, due to market conditions at January 31, 2001, the Company was holding excess borrowings in cash equivalents. Historically a large portion of tax return preparation occurs in the fourth quarter and has the effect of increasing certain assets and liabilities during the fourth quarter, including cash and cash equivalents, receivables, accrued salaries, wages and payroll taxes and accrued taxes on earnings.

The Company incurs short-term borrowings throughout the year primarily to fund receivables associated with its mortgage loans held for sale, Business services and participation in RALs, and to fund seasonal working capital needs. These short-term borrowings in the U.S. are supported by a $1.86 billion back-up credit facility through October 2001, subject to annual renewal.

In April 2000, the Company entered into third party off-balance sheet arrangements and whole-loan sale arrangements for Option One Mortgage Corporation (Option One). These arrangements allow the Company to originate mortgage loans and then sell the loans to a qualified special purpose entity without having to use short-term borrowings to fund the loans. The arrangements, which are not guaranteed by H&R Block, freed up excess cash and short-term borrowing capacity ($824.7 million at January 31, 2001), improved liquidity and flexibility, and reduced balance sheet risk, while providing stability and access to liquidity in the secondary market for mortgage loans. The Company has commitments to fund mortgage loans of $548.8 million at January 31, 2001, as long as there is no violation of any conditions established in the contracts. External market forces impact the probability of commitments being exercised, and therefore, total commitments outstanding do not necessarily represent future cash requirements. If the commitments are exercised they will be funded using the Company's off-balance sheet arrangements.

At January 31, 2001, short-term borrowings increased to $1.6 billion from $283.8

million at April 30, 2000. The Company's capital expenditures, dividend payments, share repurchase program, Business services acquisition payments and normal operating activities, including RALs, during the first nine months were funded through both internally-generated funds and short-term borrowings.

For the nine months ended January 31, 2001 and 2000, interest expense was $195.2 million and $85.1 million, respectively. The increase in interest expense is due to the inclusion of operating interest expense to external parties at OLDE Financial Corporation (OLDE) for a full nine months ($92.7 million) compared to only two months in the prior year and acquisition interest expense of $54.5 million related to the OLDE acquisition in December 1999. These increases were partially offset by lower interest expense from Mortgage operations because the Company no longer incurs short-term borrowings to fund its mortgage loans.

In March 2000, the Company's Board of Directors approved a plan to repurchase up to 12 million shares of its common stock. At January 31, 2001, 7.2 million shares had been repurchased under this plan, with only 1,898 shares purchased during the third quarter of fiscal 2001. The Company plans to continue to purchase its shares on the open market in accordance with this authorization, subject to various factors including the price of the stock, the ability to maintain progress toward a financial and capital structure that will support a mid single A rating (Moody's - A2; Standard & Poors - A; and Fitch - A), the availability of excess cash, the ability to maintain liquidity and financial flexibility, securities laws restrictions and other investment opportunities available. The Company does not anticipate any significant share repurchases through the remainder of the fiscal year.

FORWARD-LOOKING INFORMATION

The information contained in this Form 10-Q and the exhibits hereto may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such statements are based upon current information, expectations, estimates and projections regarding the Company, the industries and markets in which the Company operates, and management's assumptions and beliefs relating thereto. Words such as "will," "plan," "expect," "remain," "intend," "estimate," "approximate," and variations thereof and similar expressions are intended to identify such forward-looking statements. These 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 are difficult to predict. Therefore, actual outcomes and results could materially differ 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 uncertainty of laws, legislation, regulations, supervision and licensing by Federal, state and local authorities and their impact on any lines of business in which the Company's subsidiaries are involved; unforeseen compliance costs; the uncertainty that the Company will achieve or exceed its revenue, earnings, client and pricing growth goals for fiscal year 2001; the uncertainty that the level of growth experienced in the third quarter of fiscal year 2001 and early 2001 tax season will continue throughout the remainder of the tax season and fiscal year; the uncertainty of the success of the Company's marketing and business development programs; changes in economic, political or regulatory environments; changes in competition and the effects of such changes; the inability to implement

the Company's strategies; changes in management and management strategies; the Company's inability to successfully design, create, modify and operate its computer systems and networks; the uncertainty that actual future excess cash flows from residual interests in securitizations of REMIC certificates will differ from estimated future excess cash flows from such items; litigation involving the Company; the uncertainty of the impact of share repurchases on earnings per share; and risks described from time to time in reports and registration statements filed by the Company and its subsidiaries with the Securities and Exchange Commission. Readers should take these factors into account in evaluating any such forward-looking statements. The Company undertakes no obligation to update publicly or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

RESULTS OF OPERATIONS

FISCAL 2001 COMPARED TO FISCAL 2000

The analysis that follows should be read in conjunction with the tables below and the Consolidated Statements of Operations found on pages 2 and 3. All amounts in the following tables are in thousands.

THREE MONTHS ENDED JANUARY 31, 2001 COMPARED TO
THREE MONTHS ENDED JANUARY 31, 2000

Consolidated H&R Block, Inc.

	Quarter Ended January 31,		Variance Better/(worse) than	
	2001	2000	$	%
Total revenues	$ 661,354	$ 512,507	$148,847	29.0%
Pretax earnings (loss)	9,816	(13,523)	23,339	172.6%
Net earnings (loss)	$ 5,645	$ (7,075)	$ 12,720	179.8%

Consolidated revenues for the three months ended January 31, 2000 increased 29.0% primarily due to the U.S. tax operations segment, which increased $89.5 million or 37.6% over the prior year. All of the Company's segments, except for International tax operations, showed improved revenues for the quarter. Mortgage operations and Investment services increased 33.3% and 22.1%, respectively.

The Company reported pretax earnings of $9.8 million for the third quarter of fiscal 2001 compared to a loss of $13.5 million in the prior year. The improvement over the prior year is almost entirely due to the U.S. tax operations segment that reported earnings of $7.4 million, a $36.9 million improvement over last year.

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 119.5% to $88.7 million compared to $40.4

million in the prior year's third quarter. EBITDA is utilized by management to evaluate the performance of its operating segments because many of the segments reflect substantial amortization of acquired intangible assets and goodwill resulting from recent acquisitions. Management believes the EBITDA is a good measure of cash flow generation because the Company is not historically capital intensive and it also removes the effects of purchase accounting. The calculation of EBITDA may not be comparable to the calculation of EBITDA by other companies.

Net earnings were $5.6 million, or $.06 per share compared to a loss of $7.1 million, or $.07 per share in the third quarter of fiscal 2000. The effective income tax rate decreased from 47.7% last year to 42.5% this year. The higher rate in the prior year is a result of adjusting the effective tax rate from 38.0% to the rate expected to be applicable for the full fiscal year (38.9%) during the third quarter due to the acquisition of OLDE Financial Corporation that resulted in non-deductible intangible asset and goodwill amortization.

An analysis of operations by reportable operating segments follows.

U.S Tax Operations

	Quarter Ended January 31,		Variance Better/(worse) than	

	2001	2000	$	%
Tax preparation and related fees	$ 239,321	$ 179,167	$ 60,154	33.6%
Royalties	27,874	15,102	12,772	84.6%
RAL participation fees	25,403	12,085	13,318	110.2%
Software sales	24,167	21,150	3,017	14.3%
Other	10,545	10,347	198	1.9%
Total revenues	327,310	237,851	89,459	37.6%
Compensation & benefits	154,373	113,094	(41,279)	-36.5%
Occupancy & equipment	43,800	42,382	(1,418)	-3.3%
Depreciation & amortization	20,820	15,004	(5,816)	-38.8%
Cost of software sales	14,301	13,659	(642)	-4.7%
Bad debt expense	21,632	11,634	(9,998)	-85.9%
Marketing & advertising	25,732	25,129	(603)	-2.4%
Other	39,214	46,376	7,162	15.4%
Total expenses	319,872	267,278	(52,594)	-19.7%
Pretax earnings (loss)	$ 7,438	$ (29,427)	$ 36,865	125.3%

U.S. Tax Operating Data

Company-owned tax offices and E-commerce	For the period January 1 through January 31, 2001	2000	Percent Change
Total clients served	2,192	1,792	22.3%
Tax returns prepared	2,029	1,704	19.1%
Returns filed electronically	2,094	1,691	23.8%
Average fee per client	$ 109.62	$ 96.35	13.8%
Refund anticipation loans	1,025	864	18.6%
Offices	5,060	5,162	-2.0%

Revenues increased 37.6% to $327.3 million for the three months ended January 31, 2001 compared to the same period last year. This increase is primarily attributable to higher tax preparation and related fees that are a direct result of increases in both the number of clients served and average fees per client. The number of clients served in company-owned operations increased 22.3% to 2.2 million for the first month of the tax season and the average fee per client served increased to $109.62 from $96.35 last year. The increase in the average fee is due in part to a reduction in the number of discounts taken at the point of sale and to more complex returns processed this year. In addition, the number of tax returns filed electronically increased 23.8% in company-owned operations resulting in the electronic filing of 95.5% of all returns processed in company-owned operations. Also contributing to the increase were revenues from participations in RALs which increased $13.3 million over the prior year. This increase is a result of both an increase in the average revenue per RAL (55.9%) and an increase in the number of RALs (44.7%). The Company participates with Household Tax Masters in offering RALs to customers through tax offices (49.9% in company-owned offices and 25% in major franchise offices). Revenue from this participation is calculated as our

percentage participation times the fee that the customer pays for the RAL. The fee that the customer pays for the RAL is set by Household Tax Masters and is based on the dollar amount of the RAL. The increase in pricing is due to adjustments made to offset the increased risk of bad debt resulting from the IRS's heightened review of returns containing earned income tax credits. Although the first month of the tax season started strongly, based on an analysis of returns filed through February 16, 2001, it appears that a significant portion of the growth is attributable to a shift in the filing pattern from the first two weeks of February into late January. In addition, royalty revenues increased 84.6% over the same period last year due primarily to an increase in the number of clients served in franchise offices. Royalty revenues were also favorably impacted by the shift from February to January. Accordingly, this level of growth in royalty revenue is not sustainable and historically trends with the growth in tax preparation revenues.

U.S. tax operations reported pretax earnings of $7.4 million compared to a loss of $29.4 million in the third quarter last year. The improved results are primarily due to the increase in revenues. Pretax earnings from participations in RALs increased $5.0 million or 192.6% over last year. Also contributing to the improvement over last year is the performance of Kiplinger TaxCut software and the new online tax solutions, increasing $4.7 million over the same period last year.

Due to the nature of this segment's business, the results for the first month of the tax-filing season are not necessarily indicative of the expected results for the entire tax season.

International Tax Operations

	Quarter Ended January 31,		Variance Better/(worse) than	
	2001	2000	$	%
Canada	$ 3,002	$ 3,833	$ (831)	-21.7%
Australia	4,413	4,282	131	3.1%
United Kingdom	344	319	25	7.8%
Overseas franchises	98	44	54	122.7%
Total revenues	7,857	8,478	(621)	-7.3%
Canada	(6,271)	(7,419)	1,148	15.5%
Australia	716	937	(221)	-23.6%
United Kingdom	(443)	(526)	83	15.8%
Overseas franchises	(143)	(126)	(17)	-13.5%
Pretax loss	$ (6,141)	$ (7,134)	$ 993	13.9%

Revenues decreased 7.3% to $7.9 million from $8.5 million last year. The decrease was driven primarily by management's decision to reduce the non-profitable early discounted return business in Canada and by the continued strength of the U.S. dollar.

The pretax loss improved 13.9% to $6.1 million compared to a loss of $7.1 million. The improved performance is primarily attributed to reduced operating costs from the non-performing early discounted return business in Canada as well as additional cost control mainly in marketing, administrative labor and supplies. The Australian results were negatively affected by the timing of certain marketing expenses.

Mortgage Operations

	Quarter Ended January 31,		Variance Better/(worse) than	
	2001	2000	$	%
Interest income	$ 12,176	$ 22,397	$(10,221)	-45.6%
Loan servicing income	29,579	16,673	12,906	77.4%
Gain on sale of mortgage loans	71,903	45,882	26,021	56.7%
Other	511	691	(180)	-26.0%
Total revenues	114,169	85,643	28,526	33.3%
Compensation & benefits	33,555	25,792	(7,763)	-30.1%
Variable servicing & processing	9,826	5,934	(3,892)	-65.6%
Occupancy & equipment	5,899	4,227	(1,672)	-39.5%
Interest expense	6,660	15,230	8,570	56.3%
Bad debt expense	4,116	3,798	(318)	-8.4%
Amortization of intangibles	3,394	3,506	112	3.2%
Other	12,402	2,158	(10,244)	-474.7%
Total expenses	75,852	60,645	(15,207)	-25.1%
Pretax earnings	$ 38,317	$ 24,998	$ 13,319	53.3%

Revenues increased 33.3% to $114.2 million in the third quarter of fiscal 2001. The increase is primarily due to an increase in production volume, a favorable secondary market environment and a larger servicing portfolio. Revenues related to the sale of mortgage loans increased $26.0 million over the prior year resulting from favorable secondary market pricing and better pricing execution on mortgage loan sales. During the three months ended January 31, 2001, the Company originated $1.6 billion in mortgage loans compared to $1.4 billion last year. The total execution price representing gain on sale of mortgage loans for the third quarter was 5.04% compared to 4.36% for the third quarter ended January 31, 2000. In the third quarter of fiscal 2001, $1.5 billion in mortgage loans were sold compared to $1.4 billion in the same period last year. Servicing revenues increased 77.4% over the prior year's third quarter. The increase is principally attributable to a higher loan servicing portfolio balance, increased servicing operations efficiencies and an increase in the collection of borrower late fees. The average number of loans being serviced increased by 68,108 to an average portfolio balance for the period of $15.3 billion compared to $8.1 billion for the same period last year.

Pretax earnings increased $13.3 million or 53.3% to $38.3 million for the three months ended January 31, 2001. The improved performance is primarily due to the increase in revenues. Mortgage operations operating margin of 33.6% improved 437 basis points from 29.2% in the prior year. The decrease in both interest income and interest expense is a result of the move to off-balance sheet arrangements for the funding of mortgage loans. Utilizing the off-balance sheet arrangements, the Company no longer incurs short-term borrowings to fund its mortgage loans. The results of the wholesale and retail mortgage operations were slightly reduced by costs associated with the winding down of certain mortgage activities.

Investment Services

	Quarter Ended January 31,		Variance Better/(worse) than	
	2001	2000	$	%

Commission & fee income	$ 60,192	$ 66,340	$ (6,148)	-9.3%
Margin interest income	50,381	26,605	23,776	89.4%
Other	7,591	3,831	3,760	98.1%
Total revenues	118,164	96,776	21,388	22.1%
Compensation & benefits	42,745	32,965	(9,780)	-29.7%
Interest expense	26,280	13,145	(13,135)	-99.9%
Occupancy & equipment	6,373	4,792	(1,581)	-33.0%
Commission, floor brokerage & fees	2,062	4,758	2,696	56.7%
Amortization of intangibles	11,387	5,514	(5,873)	-106.5%
Other	22,708	16,624	(6,084)	-36.6%
Total expenses	111,555	77,798	(33,757)	-43.4%
Pretax earnings	$ 6,609	$ 18,978	$(12,369)	-65.2%

Revenue increased 22.1% to $118.2 million from $96.8 million in the same period last year. The increase is attributable primarily to the acquisition of OLDE, the parent company of H&R Block Financial Advisors, Inc. (formerly OLDE Discount Corporation) on December 1, 1999, and reflects a full three months of revenue for the acquired companies in the third quarter of fiscal 2001 as compared with only two months of revenue in the same quarter of fiscal 2000.

Pretax earnings for this segment decreased by 65.2% to $6.6 million from $19.0 million earned last year. During the third quarter of fiscal 2001, Investment services experienced industry-wide declines in average daily trading volume and average margin loan balances which negatively impacted earnings compared to the prior year. Pretax earnings were also reduced by expenditures related to the development of investment services over and above the individual stock selection and research, which were the mainstays of OLDE's investment services prior to the acquisition. Services introduced since the acquisition include financial planning, on-line trading and Express IRA's offered to tax preparation clients. Under development are cash management and fee-based account offerings, among others. The Investment services segment has yet to experience significant revenues from these additional services. Expenses for the development of cross-sell marketing systems also impacted the decline in pretax earnings.

Business Services

	Quarter Ended January 31,		Variance Better/(worse) than	
	2001	2000	$	%
Accounting, consulting & tax	$ 76,537	$ 67,023	$ 9,514	14.2%
Product sales	5,654	4,818	836	17.4%
Management fee income	4,050	7,757	(3,707)	-47.8%
Other	6,488	3,208	3,280	102.2%
Total revenues	92,729	82,806	9,923	12.0%
Compensation & benefits	64,288	49,913	(14,375)	-28.8%
Occupancy & equipment	4,245	8,891	4,646	52.3%
Amortization of intangibles	8,477	5,740	(2,737)	-47.7%
Other	14,656	15,127	471	3.1%
Total expenses	91,666	79,671	(11,995)	-15.1%
Pretax earnings	$ 1,063	$ 3,135	$(2,072)	-66.1%

Business services revenues of $92.7 million increased 12.0% from $82.8 million in the prior year. The increase in revenues over the prior year is due to an increase in productivity, tax consulting revenue and revenue from an alliance with three insurance carriers to provide life insurance solutions through the Company's new wealth management planning program. The increases in these areas were offset by a decrease in revenue from technology consulting fees associated with year 2000 engagements and the decision to close certain unprofitable technology consulting practices.

As of January 31, 2001, the operations of all of the remaining original regional accounting firms acquired had been merged into RSM McGladrey, the national accounting firm that acquired substantially all of the non-attest assets of McGladrey & Pullen, LLP on August 2, 1999. Prior to the mergers, for the regional accounting firms, the Company was required, in accordance with Emerging Issues Task Force No. 97-2 - "Application of FASB Statement No. 94 and APB Opinion No. 16 to Physician Practice Management Entities and Certain Other Entities with Contractual Management Arrangements," to consolidate revenues and expenses from the non-attest business that the Company owned and the attest business of firms located in Kansas City, Chicago, Baltimore and Philadelphia that the Company did not own, but for whom it performed management services. Revenues are no longer consolidated as a result of the change in organizational structure. This decline in revenue was offset by revenue from three acquisitions, which were completed during the first nine months of fiscal year 2001 in Boston, Washington D.C. and New York.

The pretax earnings were $1.1 million compared to $3.1 million in the prior year. The primary reason for the decrease is an increase in purchased goodwill and intangible asset amortization of $2.7 million related to new acquisitions. Somewhat offsetting the decline in

pretax earnings, the Company recorded a pretax gain of $2.0 million in December 2000 on the sale of the assets of its Indianapolis-based regional accounting firm.

Due to the nature of this segment's business, revenues are seasonal, while expenses (except for partner compensation) are relatively fixed throughout the year. Results for the third quarter are not indicative of the expected results for the entire fiscal year.

Unallocated Corporate &
Interest Expense on Acquisition Debt

	Quarter Ended January 31,		Variance Better/(worse) than	
	2001	2000	$	%
Total revenues	$ 1,125	$ 953	$ 172	18.0%
Compensation & benefits	4,184	2,386	(1,798)	-75.4%
Interest expense	5,835	1,445	(4,390)	-303.8%
Other	2,524	3,793	1,269	33.5%
Total expenses	12,543	7,624	(4,919)	-64.5%
Pretax loss	$ (11,418)	$ (6,671)	$ (4,747)	-71.2%
Interest expense on acquisition debt	$ 23,988	$ 19,451	$ (4,537)	-23.3%

The unallocated corporate pretax loss for the third quarter increased 71.2% to $11.4 million from $6.7 million in the comparable period last year. The increase is primarily a result of interest expense related to borrowings for funding of operations.

The increase in interest expense on acquisition debt is attributable to the acquisition of OLDE in December 1999 which is somewhat offset by lower interest expense related to the acquisition of the non-attest assets of McGladrey & Pullen, LLP due to payment of a portion of the acquisition debt in August 2000.

THREE MONTHS ENDED JANUARY 31, 2001 (THIRD QUARTER) COMPARED TO THREE MONTHS ENDED OCTOBER 31, 2000 (SECOND QUARTER)

Consolidated H&R Block, Inc.

	Fiscal Year 2001 Quarter		Variance Better/(worse) than	
	3rd	2nd	$	%
Total revenues	$ 661,354	$ 337,474	$323,880	96.0%
Pretax earnings (loss)	9,816	(86,356)	96,172	111.4%
Net earnings (loss)	$ 5,645	$(49,655)	$ 55,300	111.4%

Consolidated revenues for the three months ended January 31, 2001 increased 96.0% primarily due to revenues from U.S. tax operations related to the beginning of the U.S. tax-filing season. In addition, Mortgage operations and Business services revenues increased 34.8% and 18.5%, respectively.

The Company reported pretax earnings of $9.8 million compared to a loss of $86.4 million in the second quarter of fiscal 2001. The improved performance is due to U.S. tax operations with earnings of $7.4 million, a $94.6 million improvement over the second quarter. Mortgage operations also contributed with earnings of $38.3 million, an 85.1% increase over the three months ended October 31, 2000.

Net earnings were $5.6 million, or $.06 per share compared to a loss of $49.7 million, or $.54 per share, in the second quarter.

An analysis of operations by reportable operating segments follows.

U.S Tax Operations

	Fiscal Year 2001 Quarter		Variance Better/(worse) than	
	3rd	2nd	$	%
Tax preparation and related fees	$ 239,321	$ 9,366	$ 229,955	**
Royalties	27,874	1,768	26,106	**

RAL participation fees	25,403	19	25,384	**
Software sales	24,167	590	23,577	**
Other	10,545	14,660	(4,115)	-28.1%
Total revenues	327,310	26,403	300,907	**
Compensation & benefits	154,373	36,479	(117,894)	-323.2%
Occupancy & equipment	43,800	34,608	(9,192)	-26.6%
Depreciation & amortization	20,820	16,232	(4,588)	-28.3%
Cost of software sales	14,301	325	(13,976)	**
Bad debt expense	21,632	325	(21,307)	**
Marketing & advertising	25,732	7,607	(18,125)	-238.3%
Other	39,214	18,030	(21,184)	-117.5%
Total expenses	319,872	113,606	(206,266)	-181.6%
Pretax earnings (loss)	$ 7,438	$ (87,203)	$ 94,641	108.5%

Revenues increased $300.9 million over the second quarter of fiscal 2001. U.S. tax operations reported pretax earnings of $7.4 million in the third quarter compared to a loss of $87.2 million in the second quarter. The improved results are due to the start of the U.S. tax-filing season.

International Tax Operations

	Fiscal Year 2001 Quarter		Variance Better/(worse) than	
	3rd	2nd	$	%
Canada	$ 3,002	$ 2,540	$ 462	18.2%
Australia	4,413	11,789	(7,376)	-62.6%
United Kingdom	344	409	(65)	-15.9%
Overseas franchises	98	161	(63)	-39.1%
Total revenues	7,857	14,899	(7,042)	-47.3%
Canada	(6,271)	(4,932)	(1,339)	-27.1%
Australia	716	4,932	(4,216)	-85.5%
United Kingdom	(443)	(419)	(24)	-5.7%
Overseas franchises	(143)	(48)	(95)	-197.9%
Pretax loss	$(6,141)	$ (467)	$(5,674)	**

Revenues decreased by $7.0 million from the second quarter. This decrease was driven primarily by the end of the Australian tax season, which primarily occurs in the second quarter.

The pretax loss increased by $5.7 million over the second quarter. The end of the Australian tax season and the preparation for the beginning of the Canadian tax season are the primary drivers of this change.

Due to the nature of this segment's business, third quarter operating results are not indicative of the expected results for the entire fiscal year.

Mortgage Operations

	Fiscal Year 2001 Quarter		Variance Better/(worse) than	
	3rd	2nd	$	%
Interest income	$ 12,176	$ 6,856	$ 5,320	77.6%
Loan servicing income	29,579	26,567	3,012	11.3%
Gain on sale of mortgage loans	71,903	50,817	21,086	41.5%
Other	511	450	61	13.6%

Total revenues	114,169	84,690	29,479	34.8%
Compensation & benefits	33,555	28,608	(4,947)	-17.3%
Variable servicing & processing	9,826	8,990	(836)	-9.3%
Occupancy & equipment	5,899	5,615	(284)	-5.1%
Interest expense	6,660	714	(5,946)	-832.8%
Bad debt expense	4,116	5,550	1,434	25.8%
Amortization of intangibles	3,394	3,394	-	**
Other	12,402	11,121	(1,281)	-11.5%
Total expenses	75,852	63,992	(11,860)	-18.5%
Pretax earnings	$ 38,317	$ 20,698	$ 17,619	85.1%

Revenues increased 34.8% to $114.2 million in the third quarter compared to $84.7 million in the second quarter. The increase is primarily due to revenues generated from loan sale activity that is a result of higher gains recognized due to better pricing execution on loan sales. Total loan funding for the third quarter ending January 31, 2001 increased $91.5 million to $1.6 billion compared to $1.5 billion for the quarter ending October 31, 2000. The total execution price representing gain on sale for the third quarter increased a total of 109 basis points from 3.95% to 5.04%. In the fourth quarter we expect net cash proceeds to be lower than the third quarter due to mortgage rates catching up to market rates. The declining interest rate environment also led to higher interest income due to a widening spread before loans are sold. The mortgage rates on loans funded significantly lagged market rates, because the rates charged to borrowers are locked approximately 20-30 days prior to funding. Assuming interest rates remain static, we believe the positive impact of declining rates on interest income will not continue in the fourth quarter. Servicing revenues also contributed to the increase due to a higher loan-servicing portfolio. The

average loan-servicing portfolio increased to $17.2 billion from $15.6 billion in the second quarter, an increase of 10.1%.

Pretax earnings increased $17.6 million or 85.1% to $38.3 million in the third quarter of fiscal 2001. The improved performance is primarily due to the increase in revenues. Mortgage operations operating margin of 33.6% improved from 24.4% in the second quarter.

Investment Services

	Fiscal Year 2001 Quarter		Variance Better/(worse) than	
	3rd	2nd	$	%
Commission & fee income	$ 60,192	$ 65,380	$(5,188)	-7.9%
Margin interest income	50,381	59,508	(9,127)	-15.3%
Other	7,591	6,685	906	13.6%
Total revenues	118,164	131,573	(13,409)	-10.2%
Compensation & benefits	42,745	43,134	389	.9%
Interest expense	26,280	33,382	7,102	21.3%
Occupancy & equipment	6,373	6,786	413	6.1%
Commission, floor brokerage & fees	2,062	3,043	981	32.2%
Amortization of intangibles	11,387	11,348	(39)	-.3%
Other	22,708	22,152	(556)	-2.5%
Total expenses	111,555	119,845	8,290	6.9%
Pretax earnings	$ 6,609	$ 11,728	$(5,119)	-43.6%

Revenues decreased 10.2% to $118.2 million from $131.6 million in the prior quarter. Pretax earnings decreased 43.6% to $6.6 million from $11.7 million in the three months ended October 31, 2000 due to the decrease in revenues. Total expenses were less in the third quarter than in the second quarter. Even though the average daily trading volumes were slightly higher in the third quarter as compared with the second quarter, there were three fewer trading days in the third quarter, and there was a decline in revenue per trade from $70.52 to $68.61 in the third quarter. Together these items accounted for $4.2 million of the decline in revenue. A drop in margin loan balances from $2.6 billion at the beginning of the third quarter to $1.9 billion at the end of the quarter also impacted revenues. The lower margin balances resulted in lower margin interest charges, accounting for $9.1 million of the decline in revenues.

Business Services

	Fiscal Year 2001 Quarter		Variance Better/(worse) than	
	3rd	2nd	$	%
Accounting, consulting & tax	$ 76,537	$ 69,265	$ 7,272	10.5%
Product sales	5,654	5,278	376	7.1%
Management fee income	4,050	4,639	(589)	-12.7%
Other	6,488	(915)	7,403	809.1%
Total revenues	92,729	78,267	14,462	18.5%
Compensation & benefits	64,288	54,816	(9,472)	-17.3%
Occupancy & equipment	4,245	5,555	1,310	23.6%
Amortization of intangibles	8,477	7,847	(630)	-8.0%
Other	14,656	10,830	(3,826)	-35.3%
Total expenses	91,666	79,048	(12,618)	-16.0%
Pretax earnings (loss)	$ 1,063	$ (781)	$ 1,844	236.1%

Business services revenues increased 18.5% in comparison to the quarter ended October 31, 2000. The increase is due to the seasonal nature of the business where January revenues are much higher than the previous months, the growth in the tax consulting business and revenues from an alliance with three insurance carriers to provide life insurance solutions through the Company's new wealth management planning program that began in October 2000.

As of January 31, 2001, the operations of all of the remaining original regional accounting firms acquired had been merged into RSM McGladrey, the national accounting firm that acquired substantially all of the non-attest assets of McGladrey & Pullen, LLP on August 2, 1999. Prior to the mergers, for the regional accounting firms, the Company was required to consolidate revenues and expenses from the non-attest business that the Company owned and the attest business of firms located in Kansas City, Chicago, Baltimore and Philadelphia that the Company did not own, but for whom it performed management services. Revenues are no longer consolidated as a result of the change in organizational structure. As of October 31, 2000, there were still two original accounting firms for which the Company was consolidating the attest revenues and expenses. The decline in revenue was partially offset by revenue from acquisitions during the quarter.

The pretax earnings were $1.8 million greater than the previous quarter. This is due to the increase in revenues. The increase in compensation and benefits is due to the seasonal nature of the business and is a direct result of the increase in revenues. Additionally, in December 2000, the Company sold the assets of its Indianapolis-based regional accounting firm, which resulted in a pretax gain on sale of $2.0 million.

Unallocated Corporate &
Interest Expense on Acquisition Debt

	Fiscal Year 2001 Quarter		Variance Better/(worse) than	
	3rd	2nd	$	%
Total revenues	$ 1,125	$ 1,642	$ (517)	-31.5%
Compensation & benefits	4,184	3,255	(929)	-28.5%
Interest expense	5,835	2,703	(3,132)	-115.9%
Other	2,524	2,411	(113)	-4.7%
Total expenses	12,543	8,369	(4,174)	-49.9%
Pretax loss	$ (11,418)	$(6,727)	$(4,691)	-69.7%
Interest expense on acquisition debt	$ 23,988	$ 24,484	$ 496	2.0%

The unallocated corporate pretax loss for the third quarter increased 69.7% to $11.4 million from $6.7 million in the second quarter. The increase is due to interest expense related to borrowings for funding of operations.

NINE MONTHS ENDED JANUARY 31, 2001 COMPARED TO
NINE MONTHS ENDED JANUARY 31, 2000

Consolidated H&R Block, Inc.

	Nine Months Ended January 31,		Variance Better/(worse) than	
	2001	2000	$	%
Total revenues	$1,302,938	$ 844,013	$458,925	54.4%
Pretax loss	(166,533)	(145,477)	(21,056)	-14.5%
Net loss	$ (95,756)	$ (88,886)	$(6,870)	-7.7%

Consolidated revenues for the nine months ended January 31, 2001 increased 54.4% due primarily to Investment services which includes nine months of revenues in fiscal 2001 compared to two months of revenues in fiscal 2000, as OLDE was acquired on December 1, 1999. All of the Company's segments contributed improved revenues over the prior year.

The pretax loss increased 14.5% to $166.5 million compared to $145.5 million in the nine months ended January 31, 2000. The increased loss is primarily due to interest expense on the OLDE acquisition of $54.5 million, an increase of $43.0 million over the prior year. This increase was partially offset by the inclusion of OLDE for a full nine months in fiscal 2001 compared to two months in the prior year, and improved results in U.S. tax operations and Mortgage operations.

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 $103.7 million to $55.6 million compared to a negative $48.1 million in the prior year.

The net loss was $95.8 million, or $1.04 per share compared to $88.9 million, or $.91 per share, for the same period last year. The effective income tax rate increased from 38.9% to 42.5% this year as a result of the non-deductible intangible asset and goodwill amortization resulting from the OLDE acquisition, and helped reduce the loss for the nine-month period.

An analysis of operations by reportable operating segments follows.

U.S Tax Operations

	Nine Months Ended January 31,		Variance Better/(worse) than	
	2001	2000	$	%
Tax preparation and related fees	$ 256,698	$ 198,474	$ 58,224	29.3%
Royalties	30,389	16,851	13,538	80.3%
RAL participation fees	25,634	12,268	13,366	109.0%
Software sales	24,796	22,113	2,683	12.1%
Other	27,546	20,943	6,603	31.5%
Total revenues	365,063	270,649	94,414	34.9%
Compensation & benefits	222,629	176,363	(46,266)	-26.2%
Occupancy & equipment	112,977	106,096	(6,881)	-6.5%
Depreciation & amortization	52,715	36,425	(16,290)	-44.7%
Cost of software sales	14,973	14,838	(135)	-.9%
Bad debt expense	22,032	11,299	(10,733)	-95.0%
Marketing & advertising	36,138	34,963	(1,175)	-3.4%
Other	71,234	74,825	3,591	4.8%
Total expenses	532,698	454,809	(77,889)	-17.1%
Pretax loss	$ (167,635)	$ (184,160)	$ 16,525	9.0%

Revenues increased 34.9% to $365.1 million for the nine months ended January 31, 2001. The increase is primarily attributable to higher tax preparation and related fees that are a direct result of increases in both the number of clients served and average fees per client. The number of clients served in company-owned operations increased 22.3% to 2.2 million for the first month of the tax season and the average fee per client served increased to $109.62 from $96.35 last year. In addition, the number of tax returns filed electronically increased 23.8% in company-owned operations resulting in the electronic filing of 95.5% of all returns processed in company-owned operations. Although the first month of the tax season started strongly, based on an analysis of returns filed through February 16, 2001, it appears that a significant portion of the growth is attributable to a shift in the filing pattern from the first two weeks of February into late January. Royalty revenues increased 80.3% over the same period last year due primarily to an increase in

the number of clients served in franchise offices. Royalty revenues were also favorably impacted by the shift from February to January. Accordingly, this level of growth in royalty revenue is not sustainable and historically trends with the growth in tax preparation revenues. Also contributing to the increase were revenues from participations in RALs which
increased $13.4 million over the prior year. This increase is a result of both an increase in the average revenue per RAL of 55.9% and a 44.7% increase in the

number of RALs. The Company participates with Household Tax Masters in offering RALs to customers through tax offices (49.9% in company-owned offices and 25% in major franchise offices). Revenue from this participation is calculated as our percentage participation times the fee that the customer pays for the RAL. The fee that the customer pays for the RAL is set by Household Tax Masters and is based on the dollar amount of the RAL. The increase in pricing is due to adjustments made to offset the increased risk of bad debt resulting from the IRS's heightened review of returns containing earned income tax credits.

The pretax loss decreased 9.0% to $167.6 million compared to $184.2 million for the nine months ended January 31, 2000. The decreased loss is mainly due to the increase in revenues as well as good cost control.

Due to the nature of this segment's business, the nine-month operating results are not indicative of expected results for the entire fiscal year.

International Tax Operations

	Nine Months Ended January 31,		Variance Better/(worse) than	
	2001	2000	$	%
Canada	$ 8,837	$ 9,195	$ (358)	-3.9%
Australia	16,797	16,534	263	1.6%
United Kingdom	1,391	1,278	113	8.8%
Overseas franchises	630	252	378	150.0%
Total revenues	27,655	27,259	396	1.5%
Canada	(15,705)	(17,945)	2,240	12.5%
Australia	4,209	4,031	178	4.4%
United Kingdom	(1,034)	(1,233)	199	16.1%
Overseas franchises	(1)	(152)	151	99.3%
Pretax loss	$ (12,531)	$ (15,299)	$ 2,768	18.1%

Revenues increased 1.5% to $27.7 million from $27.3 million last year. The revenue decrease in Canada was primarily driven by management's decision to reduce the non-profitable early discounted return business. The continued strength of the U.S. dollar continues to have a negative impact on Canadian and Australian revenue. The revenue increase in Overseas franchise operations has been driven by the new child tax credit in Puerto Rico.

The improvement in pretax loss of 18.1% down to $12.5 million from $15.3 million is attributed to reduced operating costs on the early discounted return business in Canada. Also, contributing to the improvement were cost control measures primarily in administrative and supply items in Canada and the United Kingdom.

Mortgage Operations

	Nine Months Ended January 31,		Variance Better/(worse) than	
	2001	2000	$	%
Interest income	$ 27,674	$ 69,137	$(41,463)	-60.0%
Loan servicing income	79,081	43,809	35,272	80.5%
Gain on sale of mortgage loans	171,568	135,582	35,986	26.5%
Other	1,136	1,389	(253)	-18.2%
Total revenues	279,459	249,917	29,542	11.8%

Compensation & benefits	88,476	72,109	(16,367)	-22.7%
Variable servicing & processing	26,724	15,733	(10,991)	-69.9%
Occupancy & equipment	16,924	11,639	(5,285)	-45.4%
Interest expense	10,748	43,221	32,473	75.1%
Bad debt expense	12,309	9,539	(2,770)	-29.0%
Amortization of intangibles	10,183	10,518	335	3.2%
Other	33,252	17,707	(15,545)	-87.8%
Total expenses	198,616	180,466	(18,150)	-10.1%
Pretax earnings	$ 80,843	$ 69,451	$ 11,392	16.4%

Revenues increased 11.8% to $279.5 million for the nine months ended January 31, 2001. The increase is primarily due to higher production volume and a larger servicing portfolio. During the first nine months of fiscal 2001, $4.5 billion in mortgage loans were originated compared to $4.2 billion in the same period last year. The total execution price representing gain on sale for the nine months was 4.63% compared to 4.06% for last year. The increase in total premium is primarily attributable to the reduction in interest rates. Servicing revenues increased 80.5% over the prior year due to a higher servicing portfolio. The average loan-servicing portfolio increased 90.7% to $15.2 billion from $8.1 billion last year.

Pretax earnings improved $11.4 million or 16.4% to $80.8 million compared to $69.5 million for the nine months ended January 31, 2000. The increase is mainly due to the increase in revenues as well as continued cost controls and improved efficiencies related to servicing. Total servicing expense decreased to 31.8 basis points compared to 34.4 basis points. Mortgage operations operating margin of 28.9% improved from 27.8% in the prior year. The decrease in both interest income and interest expense is a result of the move to off-balance sheet arrangements for the funding of mortgage loans. Utilizing the off-balance sheet arrangements, the Company no longer incurs short-term borrowings to fund its mortgage loans. The results of the wholesale and retail mortgage operations were slightly reduced by costs associated with the winding down of certain mortgage activities.

Investment Services

	Nine Months Ended January 31,		Variance Better/(worse) than	
	2001	2000	$	%
Commission & fee income	$ 190,360	$ 72,870	$ 117,490	161.2%
Margin interest income	168,925	26,605	142,320	534.9%
Other	21,119	3,984	17,135	430.1%
Total revenues	380,404	103,459	276,945	267.7%
Compensation & benefits	127,380	35,273	(92,107)	-261.1%
Interest expense	92,655	13,145	(79,510)	-604.9%
Occupancy & equipment	20,625	5,084	(15,541)	-305.7%
Commission, floor brokerage & fees	8,643	10,108	1,465	14.5%
Amortization of intangibles	34,414	5,626	(28,788)	-511.7%
Other	65,238	19,941	(45,297)	-227.2%
Total expenses	348,955	89,177	(259,778)	-291.3%
Pretax earnings	$ 31,449	$ 14,282	$ 17,167	120.2%

Revenues increased 267.7% to $380.4 million from $103.5 million in the same period last year. Pretax earnings increased by 120.2% to $31.4 million for the nine-month period ended January 31, 2001. The increases are primarily attributable to inclusion of the results of OLDE, which was acquired on December 1, 1999, for a full nine months in fiscal 2001 as compared with only two months

in the fiscal 2000 period. However, the Company incurred expenses that significantly impacted results, including expenses related to the development of investment services over and above individual stock selection and research, which were the mainstays of OLDE's investment services prior to the acquisition. Services introduced since the acquisition include financial planning, on-line trading and Express IRAs offered to tax preparation clients. Under development are cash management and fee-based account offerings, among others. The Investment services segment has yet to experience significant revenues from these additional services. Also included in the expenses were costs for the development of cross-sell marketing systems and amortization of goodwill resulting from the acquisition.

Business Services

	Nine Months Ended January 31,		Variance Better/(worse) than	
	2001	2000	$	%
Accounting, consulting & tax	$ 207,184	$156,622	$ 50,562	32.3%
Product sales	15,609	11,831	3,778	31.9%
Management fee income	9,217	16,068	(6,851)	-42.6%
Other	15,083	5,644	9,439	167.2%
Total revenues	247,093	190,165	56,928	29.9%
Compensation & benefits	159,529	116,639	(42,890)	-36.8%
Occupancy & equipment	19,134	19,221	87	.5%
Amortization of intangibles	23,299	12,690	(10,609)	-83.6%
Other	47,862	39,820	(8,042)	-20.2%
Total expenses	249,824	188,370	(61,454)	-32.6%
Pretax earnings (loss)	$ (2,731)	$ 1,795	$ (4,526)	-252.1%

Business services revenues of $247.1 million increased 29.9% from $190.2 million in the prior year. The increase in revenues over the prior year is due to the inclusion of RSM McGladrey for nine months as compared to six months for the previous year. The increases in these areas were offset by a decrease in revenue from technology consulting fees associated with year 2000 engagements and the decision to close certain unprofitable technology consulting practices.

As of January 31, 2001, the operations of all of the original regional accounting firms acquired (with the exception of the Indianapolis-based regional firm, whose assets were sold in December 2000) had been merged into RSM McGladrey, the national accounting firm that acquired substantially all of the non-attest assets of McGladrey & Pullen, LLP on August 2, 1999. Prior to the mergers, for the regional accounting firms, the Company was required, in accordance with Emerging Issues Task Force No. 97-2 -- "Application of FASB Statement No. 94 and APB Opinion No. 16 to Physician Practice Management Entities and Certain Other Entities with Contractual Management Arrangements," to consolidate revenues and expenses from the non-attest business that the Company owned and the attest business of firms located in Kansas City, Chicago, Baltimore and Philadelphia that the Company did not own, but for whom it performed management services. Revenues are no longer consolidated as a result of the change in organizational structure. This decline in revenues from the change in organizational structure was offset by revenues from three acquisitions which were completed during the first nine months of fiscal year 2001 in Boston, Washington D.C. and New York.

The pretax loss was $4.5 million greater than a year ago. This is due primarily

to an increase in purchased goodwill and intangible asset amortization of $10.6 million. This increase is a result of amortization of RSM goodwill and intangible assets for nine months rather than six months.

Due to the nature of this segment's business, revenues are seasonal, while expenses (except for partner compensation) are relatively fixed throughout the year. Results for the nine-months are not indicative of the expected results for the entire fiscal year.

Unallocated Corporate &
Interest Expense on Acquisition Debt

	Nine Months Ended January 31,		Variance Better/(worse) than	
	2001	2000	$	%
Total revenues	$ 3,264	$ 2,564	$ 700	27.3%
Compensation & benefits	9,862	6,533	(3,329)	-51.0%
Interest expense	8,538	1,445	(7,093)	-490.9%
Other	7,622	8,034	412	5.1%
Total expenses	26,022	16,012	(10,010)	-62.5%
Pretax loss	$ (22,758)	$ (13,448)	$ (9,310)	-69.2%
Interest expense on acquisition debt	$ 75,760	$ 31,916	$(43,844)	-137.4%

The unallocated corporate pretax loss for the nine months increased 69.2% to $22.8 million from $13.4 million in the comparable period last year. The increase is primarily a result of interest expense related to borrowings for funding of operations.

Interest expense on acquisition debt increased $43.8 million in the nine months ended January 31, 2001 compared to the prior year. The increase is primarily attributable to the acquisition of OLDE in December 1999, and to a lesser extent, the acquisition of the non-attest assets of McGladrey & Pullen, LLP in August 1999.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in market risk from those reported at April 30, 2000.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

CompuServe Corporation (CompuServe), certain current and former officers and directors of CompuServe and the Company were named as defendants in six lawsuits

pending before the state and Federal courts in Columbus, Ohio. All suits alleged similar violations of the Securities Act of 1933 based on assertions of omissions and misstatements of fact in connection with CompuServe's public filings related to its initial public offering in April 1996. One state lawsuit brought by the Florida State Board of Administration also alleged certain oral omissions and misstatements in connection with such offering. Relief sought in the lawsuits was unspecified, but included pleas for rescission and damages.

In July 2000, the class representatives and the defendants in the class action pending in state court, by their authorized counsel, entered into a Stipulation of Settlement, pursuant to which the defendants were required to pay a gross settlement amount of $9,500 in exchange for dismissal of the class action suit and a release of all claims. The court preliminarily approved the settlement in August 2000 and notices to the class were mailed and published. The fairness hearing relating to the settlement was held on November 30, 2000, and the court issued its order approving the settlement. Payment of plaintiffs' attorneys' fees and expenses were to be paid out of the gross settlement fund. The gross settlement fund was paid in its entirety by the Company's insurance carrier. The Stipulation and payment of the gross settlement fund are not admissions of the validity of any claim or any fact alleged by the plaintiffs and defendants continue to deny any wrongdoing and any liability. The Stipulation states that the defendants consider it desirable to settle to avoid further expense, inconvenience, and delay, and put to rest all controversy concerning all claims.

The Florida State Board of Administration opted out of the class action settlement and that litigation continues separately from the state court class action. The parties have reached a settlement that will dispose of the case in its entirety with no material adverse impact on the Company's consolidated financial position or results of operations.

The lawsuits discussed herein were previously reported in Forms 10-K and 10-Q filed by the Company, including the Form 10-Qs for the quarterly periods ended July 31, 2000 and October 31, 2000.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

a) Exhibits

10.1 Agreement dated December 22, 2000, among Block Financial Corporation, David J. Kasper and Kathleen M. Kasper, without exhibits.

10.2 Amendment No. 7 to the H&R Block Deferred Compensation Plan for Directors.

b) Reports on Form 8-K

The registrant did not file any reports on Form 8-K during the third quarter of fiscal 2001.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

H&R BLOCK, INC.
(Registrant)

DATE 03/19/00 BY /s/ Frank J. Cotroneo

Frank J. Cotroneo
Senior Vice President and

Chief Financial Officer

DATE 03/19/00 BY /s/ Cheryl L. Givens

Cheryl L. Givens
Vice President and Corporate Controller

AGREEMENT EXHIBIT 10.1

THIS AGREEMENT ("this Agreement") is entered into as of the 22nd day of December, 2000, by and among BLOCK FINANCIAL CORPORATION, a Delaware corporation ("BFC"), David J. Kasper ("Kasper"), and Kathleen M. Kasper (Kathleen M. Kasper for the sole purpose of Section 4(b) of this Agreement).

ARTICLE ONE

TERMINATION OF EMPLOYMENT

1. Mutual Agreement to Terminate Employment Agreement. BFC and Kasper acknowledge and agree that they are parties to an Employment Agreement dated January 31, 2000 ("Employment Agreement") and that, pursuant to Section 1.06(b) of the Employment Agreement, the parties desire to terminate Kasper's employment under the Employment Agreement by this Agreement. Such employment and the Employment Agreement shall terminate effective as of the close of business on December 31, 2000, or such earlier date as is agreed upon by the parties in writing (the "Termination Date"). By this agreement, the parties agree to waive any notice of termination required by the Employment Agreement. The parties agree that the "Reason for Termination" to be specified in the Form U-5, Uniform Termination Notice for Securities Industry Registration, to be filed with the Central Registration Depository, will be "Voluntary." Unless otherwise agreed in this Agreement, the termination of the Employment Agreement shall not be effective as to those portions of the Employment Agreement which, by their express terms as set forth therein, require performance by either party following termination of the Employment Agreement.

2. Resignations as Director and Officer. Kasper will resign (a) as President, Financial Services Group of BFC and (b) from any and all officer and director positions held with BFC, its parents, affiliates and subsidiaries. Each such resignation shall be effective as of the Termination Date. Kasper shall execute resignations substantially in the form attached hereto as Exhibit A contemporaneously with his execution of this Agreement.

3. Compensation and Benefits.

(a) For purposes of this Agreement and the mutual agreement of the parties as to the matters of compensation and benefits addressed in the Employment Agreement, the parties agree that Kasper shall receive compensation and benefits from BFC after the Termination Date as if BFC terminated Kasper's employment under the Employment Agreement for a reason other than for "cause" on the Termination Date, and the provisions of Section 1.06(a) of the Employment Agreement shall apply. The provisions of Section 1.06(a) of the Employment Agreement read as follows:

"1.06 - Termination of Employment.

(a) Termination Due to a Change in Control or Without Cause.

(i) If Executive terminates Executive's employment under this Agreement during the 180-day period following the date of the occurrence of a "Change in Control" of Block, or if BFC terminates Executive's employment under this Agreement for any reason other than for "cause," then, upon any such termination of Executive's employment, (A) BFC shall pay to Executive compensation at an annual rate equal to the sum of (I) the annual rate of Base Salary in effect upon such termination, and (II) the aggregate short-term incentive compensation (under the H&R Block Short-Term Incentive Plan and any discretionary incentive program) paid by BFC to Executive for the last fiscal year completed before the fiscal year in which the termination of employment occurs (or, if such termination occurs prior to end of the fiscal year in which the Employment Date occurs, the amount of actual aggregate short-term incentive compensation to which Executive would have been entitled (with any discretionary incentive compensation calculated at target) had Executive remained employed through the last day of such fiscal year), such compensation to be paid throughout the one-year

period following such termination at such periodic intervals as Base Salary would have been made had Executive remained employed by BFC hereunder; (B) any portion of any option to purchase shares of Block common stock granted pursuant to Subsections 1.03(e) or 1.05 of this Agreement and held by Executive at the time of such termination of employment that is not yet vested in accordance with its terms shall fully vest upon the date of such termination of employment, and shall be exercisable to the extent so vested for a period of three months after such date of termination of employment; (C) any Restricted Shares granted pursuant to Subsection 1.03(f) of this Agreement and held by Executive at the time of such termination of employment that are not yet vested (meaning the Shares are still subject to restrictions) shall fully vest upon the date of such termination of employment, and all restrictions on any Restricted Shares so vested shall terminate; and (D) HRB shall, during the one-year period following such termination, continue Executive's health, basic life, and disability insurance benefits (such health insurance benefits to be provided by BFC's payment (whether directly or by reimbursement) of Executive's premiums/contributions due as a result of Executive selecting continuation coverage (COBRA) under the plan providing such benefits) but only to the extent Executive does not obtain similar benefits paid for by a third party after such termination."

(b) The parties agree that, in accordance with Section 1.06(c) of the Employment Agreement, upon termination of Kasper's employment under such Employment Agreement, BFC shall have no further obligations to Kasper under the Employment Agreement and no further payments of Base Salary or other compensation or benefits shall be payable by BFC to Kasper, except (i) as set forth in Section 1.06 of the Employment Agreement, (ii) as required by the express terms of any written benefit plans or written arrangements maintained by BFC and applicable to Kasper at the time of such termination of Kasper's employment, (iii) as

may be required by law, or (iv) as may be mutually agreed upon between the parties in this Agreement.

4. Repayment of Loan; Purchase of Home.

(a) The parties acknowledge and agree that, pursuant to Article Two of the Employment Agreement, BFC agreed to loan to Kasper $250,000 on February 14, 2000, that the $250,000 was loaned to Kasper on February 16, 2000, and that Kasper executed a promissory note dated February 16, 2000, evidencing the terms of such loan (the "Note"). Under the Note, Kasper is obligated to pay $63,441.44 to BFC on February 16, 2001 and on the February 16 of each succeeding year through February 16, 2005. BFC agrees to permit Kasper to postpone without penalty or default the first payment of $63,441.44 under the Note until the "Closing Date" (as defined in Section 4(b) of this Agreement), if the Closing Date is after February 16, 2001. BFC further agrees to waive and forgive all payments under the Note on the Closing Date, subject to the completion and satisfaction of the assignment described in Section 4(b) of this Agreement. The parties acknowledge and agree that any such waiver and forgiveness will result in Kasper's recognition of taxable income in the year in which the Closing Date and such waiver and forgiveness occur and that BFC has no withholding obligations with respect to such taxable income.

(b) The parties acknowledge that Kasper and Kathleen M. Kasper (the "Kaspers") are parties to that certain Residential New Construction Sale Contract dated April 1, 2000 and attached hereto as Exhibit B (the "Contract"), under which the Kaspers have agreed to purchase a personal residence located at 14579 Grenada Circle, Leawood, Kansas 66224 (the "Home"), from Grewal, Inc. (the "Seller"). The parties further acknowledge that as of the Termination Date, the purchase price of the Home is $1,288,036.10 (the "Purchase Price"), of which amount the Kaspers have paid $119,500, with the remaining $1,168,536.10 due on the date the purchase of the Home closes (the "Closing Date"). The Kaspers and BFC agree that on the Closing Date the Kaspers will assign the Contract and all amendments thereto to BFC, subject to the approval of the Seller, and that BFC will become the owner of the Home. The Kaspers will execute an Assignment and Assumption Agreement substantially in the form attached hereto as Exhibit C on the Closing Date. Between the Termination Date and the Closing Date the Kaspers agree to notify BFC of any proposed modifications to the Home as presently

designed and/or any amendments to the Contract at least five (5) business days prior to the performance of any such modifications or the execution of any such amendment, and that BFC has the sole right to approve or reject such modifications and such amendments. Absent such prior approval from BFC, the Kaspers agree not to proceed with any modifications to the Home or amendments to the Contract. After the Closing Date, if BFC sells the Home and the sales price (net of any advertising expenses incurred to sell the Home, broker commissions, other closing costs, and the estimated taxes payable as a result of the sale) is greater than the Purchase Price (as the same may be adjusted pursuant to amendments to the Contract approved by BFC pursuant to this Section 4(b)) (the difference between such sales price and such Purchase Price being the "Profit"), BFC agrees to pay to the Kaspers the lesser of the Profit or $119,500 as soon as

reasonably practicable after such expenses, commissions, costs and estimated taxes are determined. BFC shall have no obligations with respect to such $119,500 except for the conditional obligation set forth in the immediately preceding sentence.

5. Business Expenses; Commitments. BFC shall promptly pay directly, or reimburse Kasper for, all business expenses, to the extent such expenses are paid or incurred by Kasper during the term of the Employment Agreement in accordance with BFC's policy in effect from time to time and to the extent such expenses were reasonable and necessary to the conduct by Kasper of BFC's business; provided, however, during the period from the date of this Agreement through the Termination Date and at all times thereafter, Kasper will not initiate, make, renew, confirm or ratify any contracts or commitments for or on behalf of BFC or any of its affiliates, nor will Kasper incur any expenses on behalf of BFC without BFC's prior written consent.

6. Conduct.

(a) Kasper's Conduct. During the period from the date of this Agreement through the Termination Date, Kasper will be reasonably and appropriately responsive to, and fully supportive of the management of BFC and its affiliates and will be cooperative with such management in providing information regarding areas of his expertise and experience with BFC. During the period from the date of this Agreement through the Termination Date, and for the two-year period after the Termination Date, Kasper will not (a) defame BFC, its affiliates or their respective directors and employees, (b) make disparaging statements to the media, to any employee or contractor of BFC or its affiliates, or to any other person or entity concerning BFC or any of its affiliates, their respective directors and employees or any matter related to his employment or non-employment, or (c) do any deliberate act designed primarily to injure the business or reputation of BFC or any of its affiliates.

(b) BFC's Conduct. During the period from the date of this Agreement through the Termination Date, and for the two-year period after the Termination Date, BFC will not (a) defame Kasper, (b) make disparaging statements to the media, to any employee or contractor of BFC or its affiliates, or to any other person or entity regarding Kasper, his performance, character, status or any other personal or professional matter, or (c) do any deliberate act designed in whole or in part to injure, embarrass or damage Kasper's reputation.

7. Release by Kasper. In consideration of BFC's promise to Kasper of the compensation and benefits specified in Section 3 of this Agreement, the loan forgiveness specified in Section 4 of this Agreement, and BFC's other promises and agreements set forth in this Agreement, Kasper for himself and for his relations, heirs, legal representatives and assigns unconditionally releases and forever discharges BFC, H&R Block, Inc., and all other affiliates of BFC, their respective present and past directors, officers, employees, agents, predecessors, successors, and assigns of and from any and all claims, demands, actions, causes of action and suits of any kind whatsoever, whether under federal or state statute, local regulation or at common law or which thereafter arise from any matter, fact, circumstance, event, happening or

thing whatsoever occurring or failing to occur prior to the date of this Agreement involving Kasper's employment by BFC or any affiliate of BFC including, without limitation, Kasper's hiring, compensation earned as of or before the date of this Agreement, the termination of Kasper's responsibilities as an officer of BFC and as a director and/or officer of each affiliate of BFC, Kasper's termination as an employee of BFC, other obligations of BFC or any other BFC affiliate (except for those obligations expressly stated in this Agreement, the post-termination provisions of the Employment Agreement or applicable benefit plans), and further including, but not limited to, any claims for race, sex or age discrimination under the Age Discrimination in Employment Act, as amended ("ADEA"), Title VII of the Civil Rights Act of 1964, the 1991 amendments of such Civil Rights Act, the Americans with Disabilities Act, as amended, and all other federal and state statutes and common law doctrines.

8. Consideration of Release of ADEA Claims. With regard to the waiver/release of rights or clams under the ADEA, Kasper acknowledges and understands that this is a legal document and that he is legally entitled to, and has been offered, a period of twenty-one (21) days (the "Consideration Period") to consider the waiver/release of such rights or claims under this Agreement before signing it. After signing this Agreement, Kasper may revoke the waiver/release of rights or claims under the ADEA by giving written notice ("Revocation Notice") to Mark A. Ernst, President of BFC, 4400 Main Street, Kansas City, Missouri 64111, within seven (7) days after the date of signing (such seven (7) day period, the "Revocation Period" and such date of signing, the "Signing Date"). For such revocation to be effective, the Revocation Notice must be received no later than 5:00 p.m., Kansas City, Missouri time, on the seventh (7th) day after the Signing Date. If Kasper provides the Revocation Notice to BFC this Agreement will be null, void and unenforceable by either party, and BFC will have no obligation to make any payments to Kasper hereunder.

9. Acknowledgements. Kasper acknowledges that BFC has advised him to consult with an attorney prior to signing this Agreement or before the expiration of the Revocation Period. Kasper specifically acknowledges and agrees that either the full twenty-one (21) day Consideration Period has lapsed or he has been offered such twenty-one (21) day Consideration Period but has elected to waive and forego all of the applicable days which have not yet lapsed in such twenty-one (21) day Consideration Period. Kasper acknowledges and agrees that upon such consideration he has decided to waive and release any claims that he may have under the ADEA, pursuant to the terms of this Agreement.

10. Waiver. BFC agrees to waive the post-termination obligations of Kasper under Sections 4.04(b) and 4.04(c) of the Employment Agreement without affecting Kasper's rights to compensation and benefits under Section 3 of this Agreement and its incorporation of the terms of Section 1.06(a) of the Employment Agreement. Notwithstanding the foregoing, BFC does not waive Kasper's post-termination obligations under Section 3.02 and Section 4.02 of the Employment Agreement and such obligations shall remain in full force and effect. For purposes of Section 4.02 of the Employment Agreement, the payments received by Kasper pursuant to Section 3 of this Agreement shall be considered payments received by Kasper

pursuant to the Employment Agreement.

11. Third-Party Beneficiary. The parties hereto agree that H&R Block, Inc. is a third-party beneficiary as to the obligations imposed upon Kasper under the Employment Agreement and this Agreement and as to the rights and privileges to which BFC is entitled pursuant to the Employment Agreement and this Agreement, and that H&R Block, Inc. is entitled to all of the rights and privileges associated with such third-party-beneficiary status.

12. Entire Agreement. This Agreement and the post-termination obligations of the Employment Agreement constitute the entire agreement and understanding between BFC and Kasper concerning the subject matter hereof. No modification, amendment, termination, or waiver of this Agreement shall be binding unless in writing and signed by Kasper and a duly authorized officer of

BFC. Failure of BFC, H&R Block, Inc. or Kasper to insist upon strict compliance with any of the terms, covenants, or conditions hereof shall not be deemed a waiver of such terms, covenants, and conditions.

13. Successors and Assigns. This Agreement and each of its provisions shall be binding upon Kasper and the heirs, executors, successors and administrators of Kasper or his estate and property, and shall inure to the benefit of BFC, H&R Block, Inc. and their successors and assigns. Section 4(b) shall be binding upon Kathleen M. Kasper and the heirs, executors, successors and administrators of Kathleen M. Kasper or her estate and property, and shall inure to the benefit of BFC, H&R Block, Inc. and their successors and assigns. Neither Kasper nor Kathleen M. Kasper may assign or transfer to others the obligation to perform their respective duties hereunder.

14. Specific Performance by Executive. The parties acknowledge that money damages alone will not adequately compensate BFC or Block for breach of any of the covenants and agreements herein and, therefore, in the event of the breach or threatened breach of any such covenant or agreement by either party, in addition to all other remedies available at law, in equity or otherwise, a wronged party shall be entitled to injunctive relief compelling specific performance of (or other compliance with) the terms hereof.

15. Notices. Notices hereunder shall be deemed delivered five days following deposit thereof in the United States mails (postage prepaid) addressed to Kasper at: 11606 Tomahawk Creek Parkway, Apartment A, Leawood, Kansas 66211-2619; to Kathleen M. Kasper at the same address as Kasper (as provided pursuant to this Section 15), and to BFC at: 4400 Main Street, Kansas City, Missouri 64111; Attn: Mark A. Ernst, with a copy to James H. Ingraham, Esq., H&R Block, Inc., 4400 Main Street, Kansas City, Missouri 64111; or to such other address and/or person designated by any party in writing to the other parties.

16. Counterparts. This Agreement may be signed in counterparts and delivered by facsimile transmission confirmed promptly thereafter by actual delivery of executed counterparts.

Executed as a sealed instrument under, and to be governed by, construed and enforced in accordance with, the laws of the State of Missouri.

KASPER:

Dated: December 27, 2000 — /s/ David J. Kasper
(the "Signing Date" by Kasper) — David J. Kasper

Dated: December 27, 2000 — /s/ Kathleen M. Kasper
Kathleen M. Kasper

Accepted and Agreed:

BLOCK FINANCIAL CORPORATION,
a Missouri corporation

By: /s/ Mark A. Ernst
Mark A. Ernst, President

Dated: December 28, 2000

EXHIBIT 10.2

AMENDMENT NO. 7
TO THE
H&R BLOCK DEFERRED COMPENSATION PLAN FOR DIRECTORS

H&R BLOCK, INC. (the "Company") adopted the H&R Block Deferred Compensation Plan for Directors (the "Plan") effective as of August 1, 1987. The Company amended said Plan by Amendment No. 1 effective May 1, 1995; by Amendment No. 2 effective December 11, 1996; by Amendment No. 3 effective May 1, 1997; by Amendment No. 4 effective January 1, 1998; by Amendment No. 5 effective in part on March 1, 1998 and in part on April 1, 1998; and by Amendment No. 6 effective December 8, 1999. The Company continues to retain the right to amend the Plan pursuant to action by the Company's Board of Directors. The Company hereby exercises that right. This Amendment No. 7 is effective as of January 1, 2001.

AMENDMENT

1. Section 2.1.15 of the Plan, as previously amended, is further amended by: (a) inserting the punctuation and words ", each of which is an Affiliate" immediately after the words "of the Company" and immediately before the punctuation ":"; (b) deleting the words "H&R Block Tax Services, Inc." and replacing them with the words "H&R Block Services, Inc."; and (c) deleting the words "Option One Mortgage Corporation" and replacing them with the words "HRB Business Services, Inc.".

2. Section 4.2 of the Plan, as previously amended, is further amended by (a) inserting the words "on a daily basis" immediately after the words "posted to the Account" and immediately before the words "in accordance with" in the first sentence of the first paragraph thereof; and (b) deleting the sixth sentence of said section and replacing it with the following new sentence:

> "Participants may elect to reallocate all or any portion of their Account balances, including their entire balance in a Fixed 120 Account, among the available investment options, including those funds selected by the Company for the variable rate investment option, provided said reallocations are in at least one percent (1%) increments."

3. Section 4.2.2 of the Plan, as previously amended, is further amended by deleting the third and fourth sentences of said section and replacing them with the following new sentence:

> "Participants may elect to have their Accounts treated as if they were invested in one or more of the funds selected, provided the election is in at least one percent (1%) increments of the Account."

4. Section 6.4.2 of the Plan is deleted and replaced with the following new Section 6.4.2:

> "6.4.2. Death Prior to Benefit Commencement. In the event a Participant dies prior to the time benefits commence, the Company shall pay a pre-retirement death benefit to the Participant's Beneficiary in the form of a lump sum payment, semimonthly payments over a five-year period, or semimonthly payments over a ten-year period, as selected by the Participant on a form and in a manner prescribed by the Committee. A Participant may change such election once each Plan Year. If the form of payment selected by the Participant is a lump sum, the amount of the pre-retirement death benefit shall be equal to the Participant's Account as of the date of the Participant's death. If the form of payment selected by the Participant is semimonthly payments over a five or ten-year period, the amount of the pre-retirement death benefit shall be equal to the Participant's Account as of the date of the Participant's death,

annuitized over a five-year or ten-year period, respectively, at an interest rate equal to the rate of one-year United States Treasury notes in effect as of September 30 of the Plan Year immediately prior to the Plan Year in which payment of the pre-retirement death benefit commences, as published by Salomon Brothers, Inc., or any successor thereto, or as determined by the Chief Financial Officer of the Company. If a Participant fails to select the form of the pre-retirement death benefit, the pre-retirement death benefit shall be paid in the form of semimonthly payments over a ten-year period."

5. Section 6.4.4 of the Plan is amended by adding the following new sentence after the third sentence of said section:

"In the event a Participant is married at the time he or she designates a beneficiary other than his or her spouse, such designation will not be valid unless the Participant's spouse consents in writing to such designation."

6. Except as modified in this Amendment No. 7, the Plan, as previously amended, shall remain in full force and effect, including the Company's right to amend or terminate the Plan as set forth in Article 9 of the Plan.

H&R BLOCK, INC.

By: /s/ Frank L. Salizzoni

Name: Frank L. Salizzoni

Title: Chairman and CEO