UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended: April 30, 2002

☐ 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 Number)

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)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Common Stock, without par value	New York Stock Exchange Pacific Exchange

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, without par value
(Title of Class)

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 __✓__ No ____.

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

The aggregate market value of the registrant's Common Stock (all voting stock) held by non-affiliates of the registrant, computed by reference to the price at which the stock was sold on June 1, 2002, was $8,158,956,658.

Number of shares of registrant's Common Stock, without par value, outstanding on June 1, 2002: 181,289,709.

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Documents Incorporated by Reference

Certain specified portions of the registrant's annual report to security holders for the fiscal year ended April 30, 2002, are incorporated herein by reference in response to Part I, Item 1, and Part II, Items 5 through Item 8, and certain specified portions of the registrant's definitive proxy statement filed within 120 days after April 30, 2002, are incorporated herein by reference in response to Part III, Items 10 through 13, inclusive.

PART I

Item 1. Business.

General Development of Business

H&R Block, Inc. (the "Company") is a diversified company with subsidiaries providing tax services and financial advice, investment and mortgage products and services and business and consulting services. In fiscal year 2002, the Company's tax subsidiaries and their franchisees served 19.4 million taxpayers - more than any tax or accounting firm - through its nearly 10,400 offices located in the United States, Canada, Australia and the United Kingdom. Another 3.4 million clients utilized the award-winning tax software program, TaxCut® from H&R Block, and the online tax preparation service. Investment services and securities products are offered through H&R Block Financial Advisors, Inc. ("HRBFA"), member NYSE, SIPC. The Company is not a registered broker-dealer. H&R Block Mortgage Corporation ("H&R Block Mortgage") and Option One Mortgage Corporation ("Option One") offer a full range of home mortgage products and services. RSM McGladrey, Inc. ("RSM") is a national accounting, tax and consulting firm primarily serving mid-sized businesses.

The Company is a corporation that was organized in 1955 under the laws of the State of Missouri. It is the parent corporation in a two-tier holding company structure with H&R Block Group, Inc., a Delaware corporation, as the second-tier holding company and the direct or indirect owner of the operating subsidiaries that provide tax and financial products and services to the general public principally in the United States, but also in Canada, Australia and the United Kingdom. Approximately 58% of the total revenues of the Company in fiscal year 2002 were generated by subsidiaries involved in tax return preparation, electronic filing of income tax returns and other tax-related services. The Company's subsidiaries also originate, service and sell mortgages, offer investment advice, brokerage services and investment planning, offer personal productivity software, participate in refund anticipation loan products offered by a third-party lending institution, and offer accounting, tax and consulting services to business clients.

Developments during fiscal year 2002 within U.S. tax operations, International tax operations, Mortgage operations, Investment services and Business services are described in the section below entitled "Description of Business."

On September 12, 2001, the Company's Board of Directors approved the repurchase of 15 million shares of its Common Stock, without par value. Such authorization was in addition to a 12-million share repurchase that had been authorized in March 2000 and was completed in September 2001. The number of shares purchased under the September 2001 authorization will depend upon a number of factors including the price of the stock, availability of excess cash, the ability to maintain financial flexibility, securities laws restrictions and other capital structure and investment considerations.

After the conclusion of the fiscal year 2002, Frank L. Salizzoni announced that he would retire as Chairman of the Board of Directors of the Company and as a director at the adjournment of the annual meeting of shareholders in September 2002. The Board of Directors on June 12, 2002 approved a reduction the size of the Board from 10 to nine directors upon Mr. Salizzoni's retirement, and announced that it would review the role of Chairman as part of its continuing governance responsibilities and governance best practices. Accordingly, the Board of Directors did not name a successor to Mr. Salizzoni.

During the fiscal year ended April 30, 2002, the Company was not involved in any bankruptcy, receivership or similar proceedings or any material reclassifications, mergers or consolidations, and the Company did not acquire or dispose of any material amount of assets during such year.

The information contained in this Form 10-K 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 that the Company will achieve or exceed its revenue, earnings, and earnings per share growth goals or expectations for fiscal year 2003 or any other fiscal year; the uncertainty of laws, legislation, regulations, supervision and licensing by Federal, state and local authorities and their impact on any proposed or possible transactions and the lines of business in which the Company's subsidiaries are involved; unforeseen compliance costs; changes in economic, political or regulatory environments; changes in competition and the effects of such changes; changes in management and management strategies; the inability to successfully implement the Company's strategies; the Company's inability to successfully design, create, modify and operate its computer systems and networks; litigation involving the Company; the inability of the Company to purchase shares of its Common Stock pursuant to its share repurchase program; 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 ("SEC"). Readers should take these factors and risks 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.

Financial Information About Industry Segments

The information required by Item 101(b) of Regulation S-K relating to financial information about industry segments is contained in the Notes to Consolidated Financial Statements in the Company's annual report to security holders for the fiscal year ended April 30, 2002, and is hereby incorporated by reference.

Number of Employees

The Company itself has no employees. Its direct and indirect wholly owned subsidiaries have approximately 10,900 regular full-time employees. The highest number of persons employed by the

subsidiaries during the fiscal year ended April 30, 2002, including seasonal employees, was approximately 99,100.

Description of Business

U.S. Tax Operations

Generally. This operating segment provides to the general public in the United States income tax return preparation services, electronic filing services and other services related to income tax return preparation, participates in refund anticipation loan products offered by a third-party lending institution, offers a wide range of online tax services including online tax preparation and electronic filing through the web site at *www.hrblock.com*, and sells to the general public tax return preparation software and other personal productivity computer software.

Tax Services. The income tax return preparation and related services business is the original core business of the Company. These services are provided to the public in the United States through a system of offices operated by tax subsidiaries of H&R Block Services, Inc. (collectively referred to as “Tax Services”) or by others to whom Tax Services has granted franchises. Tax Services and its franchisees (collectively referred to herein as “H&R Block”) provide to the general public H&R Block income tax return preparation services, electronic filing services, the Peace of Mind program (described below) and other services relating to income tax return preparation. For U.S. returns, H&R Block offers a refund anticipation loan service and an electronic refund advance loan service in conjunction with its electronic filing service. H&R Block also markets its knowledge of how to prepare income tax returns through its income tax training schools.

Taxpayers Served. H&R Block served approximately 17,148,000 taxpayers in the United States during fiscal year 2002, compared to 16,883,000 taxpayers served in fiscal year 2001 and 16,933,000 taxpayers served in fiscal year 2000. “Taxpayers served” includes taxpayers for whom H&R Block prepared income tax returns (both online and in H&R Block offices) as well as taxpayers for whom H&R Block provided only electronic filing services.

Tax Return Preparation. During fiscal year 2002, H&R Block offices in the United States prepared approximately 16,899,000 individual income tax returns, compared to the preparation of 16,442,000 returns in fiscal year 2001 and 16,276,000 returns in fiscal year 2000. These returns constituted 14.3% of an Internal Revenue Service (“IRS”) estimate of total individual income tax returns filed as of April 30, 2002, compared to 13.9% in fiscal year 2001. The following table shows the approximate number of income tax returns prepared at H&R Block offices during the last five fiscal years:

Fiscal Year Ended April 30
(in thousands)

	1998	1999	2000	2001	2002
Returns Prepared	14,838	15,761	16,276	16,442	16,899

During the tax season, most H&R Block offices are open from 9:00 a.m. to 9:00 p.m. weekdays and from 9:00 a.m. to 5:00 p.m. Saturdays and Sundays. Office hours are often extended during peak periods. Most tax preparation business is transacted on a cash basis. The procedures of Tax Services have

been developed so that a tax return is prepared on a computer in the presence of the client, in most instances in less than one hour, based on information furnished by the client. Pursuant to the one-stop service offered at company-owned offices, the return is reviewed for accuracy and presented to the client for signature and filing during his or her initial visit to the office.

Electronic Filing. Electronic filing reduces the amount of time required for a taxpayer to receive a Federal tax refund and provides assurance to the client that the return, as filed with the IRS, is mathematically accurate. If the client desires, he or she may have his or her refund deposited by the Treasury Department directly into his or her account at a financial institution designated by the client.

An eligible electronic filing client may also apply for a refund anticipation loan ("RAL") at an H&R Block office. Under the 2002 RAL program, Tax Services' electronic filing clients who met certain eligibility criteria were offered the opportunity to apply for loans from Household Bank ("Household") in amounts based upon the clients' anticipated Federal income tax refunds. Income tax return information is simultaneously transmitted by H&R Block to the IRS and the lending bank. Within a few days after the date of filing, a check in the amount of the loan, less the bank's transaction fee and H&R Block's tax return preparation fee (and, where applicable, electronic filing fee and/or other fees for client-selected services), is received by the RAL client. During the 2002 tax season for the first time, certain qualifying Tax Services' electronic filing clients were eligible to receive their RAL proceeds, less applicable fees, in approximately one hour after electronic filing under a product known as Instant Money. The IRS then directly deposits the participating client's actual Federal income tax refund into a designated account at the bank in order for the loan to be repaid. Tax Services received a $9.00 fee per RAL from Household for sublicense of patent rights, the license of trademarks and certain expenses incurred in connection with the making of RALs.

H&R Block also offers an electronic refund service pursuant to which an eligible electronic filing service client's income tax refund is directly deposited into an account at a bank (Tax Services used Household in 2002) within approximately three weeks after the tax return is electronically filed. A check is thereafter issued to the taxpayer in the amount of the refund, less the bank's transaction fee and H&R Block's tax return preparation fee.

H&R Block filed approximately 14,279,000 U.S. tax returns electronically in fiscal year 2002 compared to 13,327,000 in fiscal year 2001 and 12,592,000 in fiscal year 2000. Approximately 5,151,000 RALs were processed in fiscal year 2002 by H&R Block, compared to 4,496,000 in fiscal year 2001 and 4,814,000 in fiscal year 2000. Approximately 1,746,000 electronic refunds were processed in fiscal year 2002 by H&R Block, compared to 1,935,000 in fiscal year 2001 and 1,499,000 in fiscal year 2000.

In fiscal years 2002 and 2001, H&R Block offered a service to transmit state income tax returns electronically to state tax authorities in 41 states and the District of Columbia (compared to 39 states and the District of Columbia in fiscal year 2000) and plans to continue to expand this program as more states make this filing alternative available to their taxpayers.

Express IRA. In fiscal year 2002, H&R Block expanded the availability of the Express IRA nationwide, compared to its availability in 14 states in fiscal year 2001. With the Express IRA product, tax preparation clients can open an IRA with HRBFA by using all or part of their tax refund, or by writing a personal check for the amount deposited into the IRA. The Express IRA is invested in an FDIC-Insured money market account through Reserve Management Corporation at an insured depository institution paying competitive money market interest rates. Clients funded approximately 130,000 Express IRAs in fiscal year 2002, compared to 25,000 in fiscal year 2001.

Employer Solutions. Under an expanded H&R Block Employer Solutions program for fiscal year 2002, employers throughout the United States were able to add H&R Block income tax return preparation to their employee benefits packages and H&R Block was able to attract new, targeted clients.

Double Check Challenge. During the 2002 tax season, H&R Block promoted its Double Check Challenge, encouraging taxpayers to bring previously filed returns to H&R Block for review at no charge. An H&R Block tax professional reviewed the returns to see if the taxpayer should file an amended return for a tax refund that otherwise would have been lost due to overlooked credits or deductions or other reasons.

H&R Block Guarantee and "Peace of Mind" Program. If an H&R Block tax professional makes an error in the preparation of a client's tax return that results in the assessment of any interest or penalties on additional taxes due, while H&R Block does not assume the liability for the additional taxes (except under its "Peace of Mind" program described below), it guarantees payment of the interest and penalties.

Under the "Peace of Mind" program, in addition to H&R Block's standard guarantee to pay penalties and interest attributable to errors made by an H&R Block tax professional, H&R Block agrees to pay additional taxes owed by the client (for which liability would not ordinarily accrue) resulting from such errors. The Peace of Mind program has a per client cumulative limit of $4,000 ($5,000 at H&R Block Premium offices) in additional taxes assessed with respect to the Federal, state and local tax returns prepared by H&R Block for the taxable year covered by the program. There is an additional charge for the "Peace of Mind" program, except at H&R Block Premium offices.

Income Tax Courses. H&R Block offers income tax return preparation courses to the public that teach taxpayers how to prepare their own income tax returns, as well as to provide H&R Block with a source of trained tax professionals. During the 2002 fiscal year, 202,800 students enrolled in H&R Block's basic and advanced income tax courses in the United States, compared to 165,600 students during fiscal year 2001 and 175,200 students during fiscal year 2000.

Owned and Franchised Offices. Most H&R Block offices are similar in appearance and usually contain the same type of furniture and equipment, in accordance with the specifications of Tax Services. Freestanding offices are generally located in business and shopping centers of large metropolitan areas and in the central business areas of smaller communities. All offices are open during the tax season. During the balance of the year, only a limited number of offices are open, but through telephone listings, H&R Block personnel are available to provide service to clients throughout the entire year.

In addition to its regular offices, H&R Block offers tax return preparation services at H&R Block Premium offices in the United States. Appealing to taxpayers with more complex returns, H&R Block Premium stresses the convenience of appointments, year-round tax service from the same tax professional and private office interviews. The number of H&R Block Premium offices decreased in fiscal year 2002 to 446, compared to 484 in fiscal year 2001 and 555 in fiscal year 2000. In fiscal year 2002, the number of H&R Block Premium clients remained consistent with fiscal year 2001 at approximately 559,000. The number of H&R Block Premium clients in fiscal year 2000 was approximately 619,000.

In fiscal year 2002, H&R Block also operated 738 offices in department stores in the United States, including 729 offices in Sears stores operated as "H&R Block at Sears." During the 2002 tax season, the Sears' facilities constituted approximately 8.1% percent of the tax office locations of H&R Block. Tax Services is a party to a license agreement with Sears relating to Tax Service's operation in Sears' locations throughout the United States. Such license agreement expires on December 31, 2004,

subject to termination rights of both parties for a limited period of time after each tax season. Tax Services believes its relations with Sears to be excellent and that both parties to the license arrangement view the operations thereunder to date as satisfactory.

On April 15, 2002, there were 9,015 H&R Block offices in operation in the United States compared to 9,072 offices in operation on April 16, 2001 and 9,210 offices in operation on April 17, 2000. Of the 9,015 offices, 5,017 were owned and operated by Tax Services (compared to 5,060 in fiscal year 2001 and 5,162 in fiscal year 2000) and 3,998 were owned and operated by independent franchisees (compared to 4,012 in fiscal year 2001 and 4,048 in fiscal year 2000). Of such franchised offices in fiscal year 2002, 2,700 were operated by franchisees of Tax Services (described below), 825 were operated by “major” franchisees (described below) and 473 were operated by franchisees of major franchisees.

The Company and its subsidiaries have principally granted two types of franchises – franchises (formerly called “satellite” franchises) and major franchises. “Major” franchisees entered into agreements with the Company (primarily in the Company’s early years) covering larger cities and counties and providing for the payment of franchise royalties based upon a percentage of gross revenues of their offices. Under the agreements, the Company granted to each franchisee the right to the use of the name “H&R Block” and provided a Policy and Procedure Manual and other supervisory services. Tax Services offers to sell furniture, signs, advertising materials, office equipment and supplies to major franchisees. Each major franchisee selects and trains the employees for its office or offices. Since March 1993, HRB Royalty, Inc., an indirect subsidiary of the Company, has been the franchisor under the major franchise agreements.

Franchises have been granted by Tax Services in smaller localities. A franchisee receives from Tax Services signs, designated equipment, specialized forms, local advertising, initial training, and supervisory services and, consequently, pays Tax Services a higher percentage of his or her gross tax return preparation and related service revenues as a franchise royalty than do major franchisees. Many of the franchises of Tax Services are located in cities with populations of 15,000 or less. Some major franchisees also grant franchises to sub-franchisees in their respective areas.

It has always been the policy of Tax Services to grant tax return preparation franchises to qualified persons without an initial franchise fee; however, the policy of Tax Services is to require a deposit to secure compliance with franchise contracts.

From time to time, Tax Services has acquired the operations of existing franchisees and other tax return preparation businesses, and it will continue to do so if future conditions warrant such acquisitions and satisfactory terms can be negotiated. In fiscal year 2002, Tax Services acquired five franchise offices.

E-Commerce Initiatives. The Company’s subsidiaries offer a wide range of online services, including online tax preparation, electronic filing of tax returns, mortgage products and brokerage services, through their web site at *www.hrblock.com*. The web site is organized into three main areas: Taxes, Mortgages and Investments.

In the Taxes area, Block Financial Corporation (“BFC”) offers a comprehensive range of tax tools, from tax advice to complete professional tax return preparation and electronic filing. The web site provides users with the ability to prepare their income tax returns online using the Online Tax Program, receive tax tips and tax-related news, subscribe to a tax newsletter and use withholding and refund calculators for tax planning. The Online Tax Program, designed for the do-it-yourself taxpayer, enables such taxpayers with Internet access to input their income tax return information securely online, and have

the program perform all the calculations and complete the appropriate IRS forms. The fees charged in 2002 for the online preparation and electronic filing of the federal return were $19.95 before April 1 and $29.95 on or after April 1. Users could also prepare online one state return for an additional $9.95.

In addition to the Online Tax Program, several other online tax products and services are offered: Professional Review, Professional Tax Service and Ask a Tax Advisor. With Professional Review, taxpayers who prepare their income tax returns using the Online Tax Program can have their self-prepared return reviewed and signed by an H&R Block tax professional and covered by the standard H&R Block Guarantee. The $29.95 fee charged for this service in 2002 included the review of both the federal and resident state tax returns. Taxpayers choosing Professional Tax Service can provide their tax information online and have an H&R Block tax professional prepare and deliver a completed tax return to the client. The $79.95 base fee for this service in 2002 covered the preparation and electronic filing of the taxpayer's Federal income tax return. The Ask a Tax Advisor service allows a taxpayer to obtain customized answers to individual tax questions from an H&R Block tax advisor. Ask a Tax Advisor is available via e-mail, live chat, or telephone. A charge of $19.95 per question was assessed to the taxpayer in fiscal year 2002.

The Taxes area also offers a program called Electronic Refund Advance ("ERA"), a loan product that allows a user to have a refund anticipation loan in an amount up to $5,000 deposited directly into his or her bank account usually within two days after the IRS accepts the taxpayer's electronically filed return. ERA is a loan and the lending institution, Household, charged a fee ranging from $29.95 to $89.95 for each transaction during the 2002 tax season. Household paid BFC a license fee from $7 to $9 for each approved ERA for the sublicense of patent rights, the license of trademarks and certain expenses incurred in connection with the making of ERAs.

The Mortgages area enables users to obtain information about loan products offered by H&R Block Mortgage Corporation, find an H&R Block Mortgage loan specialist, use interactive calculators and tools to estimate the tax implications and benefits of home ownership, refinancing or debt consolidation and determine the best loan type for a borrower's situation, and pre-qualify for a home purchase loan or refinancing.

The Investments area provides online investment services through HRBFA, a registered securities broker-dealer. Users may open a variety of accounts, obtain research, create investment plans, execute trades in a variety of securities including stocks, fixed-income products (including bonds, certificates of deposit, and unit investment trusts), and a variety of mutual funds, as well as view the status of their account on-line. See "Integrated Online Services" under "Investment Services," below.

Software Products. BFC develops and markets the income tax preparation software TaxCut® from H&R Block and markets Home and Business Attorney and Kiplinger's WILLPower℠ software products.

Refund Anticipation Loan Participations. BFC is a party to a July 1996 agreement with Household to participate in RALs provided by Household to H&R Block tax clients. See "Electronic Filing" under "Tax Services" above for a discussion of RALs. In the 10-year agreement, BFC agreed to purchase an initial 40% participation interest in such RALs, which interest would be increased to nearly 50% in specified circumstances. Beginning in fiscal year 1999, the participation interest was increased to 49.9% in company-owned RALs, and BFC participated in 25% of major franchise RALs. BFC's purchases of the participation interests are financed through short-term borrowings. BFC bears all of the risks associated with its interests in the RALs. BFC's total RAL revenue in fiscal year 2002 was

approximately $160.0 million (compared to revenue of $133.7 million in fiscal year 2001 and $89.8 million in fiscal year 2000).

Seasonality of Business. Since most of the clients of Tax Services file their tax returns during the period from January through April of each year, substantially all of Tax Services' revenues from income tax return preparation, related services and franchise royalties are received during this period. As a result, Tax Services operates at a loss through the first eight or nine months of its fiscal year. Historically, such losses primarily reflect payroll of year-round personnel, training of tax professionals, rental and furnishing of tax offices, and other costs and expenses relating to preparation for the following tax season.

BFC's income tax return preparation software, online tax service and RAL participation businesses are also seasonal, with the substantial portion of the revenues from these businesses generated during the tax season.

Service Marks and Trademarks. HRB Royalty, Inc., a Delaware corporation, claims ownership of the following service marks and trademark registered on the principal register of the United States Patent and Trademark Office:

Alguien En Quien Confiar
Block Mortgage
Executive (when used in connection with the preparation of income tax returns for others)
H&R Block in Two Distinct Designs
H&R Block Premium
Rapid Refund H&R Block and Design
Someone You Can Count On
The Income Tax People
H&R Block & Design (4)

In addition, HRB Royalty, Inc., claims ownership of the following unregistered service marks and trademarks:

America's Largest Tax Service
BlockBonus
Double Check Challenge
H&R Block in a Third Distinct Design (4)
H&R Block Just Plain Smart and Design (4)
H&R Block Rapid Refund and Design
Just Plain Smart (4)
Nation's Largest Tax Service
Refund Rewards
Smart Solutions
We know. Do you?

Tax Services has a license to use the trade names, service marks and trademarks of HRB Royalty, Inc., in the conduct of the business of Tax Services.

BFC claims ownership of the following services marks and trademarks registered on the principal register of the United States Patent and Trademark Office:

Audit Buster
B and Design (2)
Block Financial (2)
Block Financial and B Design
Conductor
Conductor and Baton Design
Conductor and Hand-Held Baton Design
Conductor Card Review
Fast Lane
B Block Financial & Design
Financial Finder
Names&dates
Small Business Attorney
Tax Cut
Tax Cut and Design
Web
Webbank
Webcard
Webpay

BFC also claims ownership of the following unregistered service marks and trademarks:

CONDUCTOR.COM
DittoCard
Download Depot
Home Legal Advisor
Netguard
Solve Your Everyday Business Problems
The Fastest and Easiest Way To Do Your Taxes
WebAccount
WebBroker
WebChecking
Will Power
Willpower
Your Complete Personal Legal Resource

BFC also claims ownership of the patent “SYSTEM FOR ON-LINE FINANCIAL SERVICES USING DISTRIBUTED OBJECTS” registered as Patent No. 5,706,442 on January 6, 1998, on the principal register of the United States Patent and Trademark Office.

In connection with BFC’s sale of its credit card portfolio in January 1999, it granted to Providian National Bank non-exclusive, non-transferable and royalty-free licenses to use the mark “Conductor and Baton Design” for up to two years, the patent “SYSTEM FOR ON-LINE FINANCIAL SERVICES USING DISTRIBUTED OBJECTS” for a period of ten years, and the mark “CONDUCTOR.COM” perpetually.

Competitive Conditions. The tax return preparation and electronic filing businesses are highly competitive. There are a substantial number of tax return preparation firms and accounting firms that offer tax return preparation services. Many tax return preparation firms and many firms not otherwise in the tax return preparation business are involved in providing electronic filing and refund anticipation loan services to the public. Commercial tax return preparers and electronic filers are highly competitive with regard to price, service and reputation for quality. Tax Services believes that, in terms of the number of offices and tax returns prepared, it is the largest tax return preparation firm in the United States. Tax Services also believes that, in terms of the number of offices and tax returns electronically filed in fiscal year 2002, it is the largest provider of electronic filing services in the United States.

The software and e-commerce businesses are highly competitive and consist of a large number of companies. In the software industry, Intuit, Inc. and Microsoft are dominant suppliers of personal

financial software. Intuit, Inc. is also H&R Block's primary competitor in the online tax preparation market. BFC expects increased competition in this area as more competitors enter the online market or existing providers of online tax preparation services consolidate.

Government Regulation. Several states have enacted, or have considered, legislation regulating commercial tax return preparers. Primary efforts toward the regulation of such preparers have historically been made at the Federal level. Federal legislation requires income tax return preparers to, among other things, set forth their signatures and identification numbers on all tax returns prepared by them, and retain for three years all tax returns prepared. Federal laws also subject income tax return preparers to accuracy-related penalties in connection with the preparation of income tax returns. Preparers may be enjoined from further acting as income tax return preparers if the preparers continuously and repeatedly engage in specified misconduct. With certain exceptions, the Internal Revenue Code also prohibits the use or disclosure by income tax return preparers of certain income tax return information without the prior written consent of the taxpayer. In addition, the Gramm-Leach-Bliley Act and Federal Trade Commission regulations adopted thereunder require income tax preparers to adopt and disclose consumer privacy policies, and provide consumers a reasonable opportunity to "opt out" of having personal information disclosed to unaffiliated third parties for marketing purposes. Some states have adopted or proposed more strict "opt-in" requirements in connection with use or disclosure of consumer information.

The Company believes that the Federal legislation regulating commercial tax return preparers has not had and will not have a material adverse effect on the operations of H&R Block. In addition, no present state statutes of this nature have had a material adverse effect on the business of H&R Block. However, the Company cannot predict what the effect may be of the enactment of new statutes or adoption of new regulations.

The Federal government regulates the electronic filing of income tax returns in part by specifying certain criteria for individuals and businesses to participate in the government's electronic filing program for U.S. individual income tax returns. Individuals and businesses must, upon application, be accepted into the electronic filing program. Once accepted, electronic filers must comply with all publications and notices of the IRS applicable to electronic filing, provide certain information to the taxpayer, comply with advertising standards for electronic filers, and be subjected to possible monitoring by the IRS, penalties for disclosure or use of income tax return preparation and other preparer penalties, and suspension from the electronic filing program.

The Federal statutes and regulations also regulate an electronic filer's involvement in refund anticipation loans. Electronic filers must clearly explain that the refund anticipation loan is a loan and not a substitute for or a quicker way of receiving an income tax refund. The Federal laws place restrictions on the fees that an electronic filer may charge in connection with refund anticipation loans.

States that have adopted electronic filing programs for state income tax returns have also enacted laws that regulate electronic filers. In addition, some states and localities have enacted laws and adopted regulations that regulate refund anticipation loan facilitators and/or the advertisement and offering of electronic filing and refund anticipation loans.

The Company believes that the Federal, state and local legislation regulating electronic filing, RALs and the facilitation of refund anticipation loans has not, and will not in the future have a material adverse effect on the operations of H&R Block. However, the Company cannot predict what the effect may be of the enactment of new statutes or the adoption of new regulations pertaining to electronic filing and/or refund anticipation loans.

The repayment of RALs generally depends on IRS direct deposit procedures. The IRS may from time to time change its direct deposit procedures or may determine not to make direct deposits of all or portions of a borrower's Federal income tax refund. The failure of the IRS to make direct deposits of refunds may impair the lender's ability to collect a RAL and result in a loss to BFC in connection with its purchases of participation interests in RALs and a loss to Tax Services for tax preparation fees not collected. However, the Company believes that Federal policies, procedures and practices relating to direct deposits by the IRS have not had and will not have a material adverse effect on the operations of BFC or Tax Services. However, the Company cannot predict what the effect may be of the enactment of new Federal statutes or the adoption of new regulations, policies, procedures or practices relating to direct deposits.

As noted above under "Owned and Franchised Offices," many of the income tax return preparation offices operating in the United States under the name "H&R Block" are operated by franchisees. Certain aspects of the franchisor/franchisee relationship have been the subject of regulation by the Federal Trade Commission and by various states. The extent of such regulation varies, but relates primarily to disclosures to be made in connection with the grant of franchises and limitations on termination by the franchisor under the franchise agreement. To date, no such regulation has materially affected the business of the Company's subsidiaries. However, the Company cannot predict what the effect may be of the enactment of new statutes or adoption of new regulations pertaining to franchising.

Many of H&R Block's income tax courses are regulated and licensed in select states. Failure to obtain a tax school license could affect the Company's revenues and limit its ability to develop interest in tax preparation as a career or obtain qualified tax professionals.

From time to time, and especially in election years, the subjects of tax reform, tax simplification, the restructuring of the tax system, a flat tax, a consumption tax, a value-added tax or a national sales tax surface. While each flat tax proposal and most other tax simplification proposals have fallen short of adoption, such issues have received serious attention in recent years. Historically, changes in tax laws have increased H&R Block's business. The immediate result of tax law changes has been an increase in complexity. The transition from the current system to a new, untested system is likely to take a number of years and, under most serious tax reform proposals, Americans will still need to file Federal and state tax returns. The Company believes that clients will still come to H&R Block for convenience, accuracy and answers to tax questions. However, if enacted, the effect of tax reform or simplification legislation on the business of the Company's subsidiaries over time is uncertain, and such legislation could have a material adverse effect on the Company's business, financial position and results of operations.

International Tax Operations

Generally. This operating segment provides the preparation of tax returns, electronic filing and related services to the general public principally in Canada, Australia and the United Kingdom. Tax preparation of U.S. tax returns and related services are offered by franchisees in eight countries. The electronic filing of U.S. income tax returns is offered at franchised offices located in Europe, and the electronic filing of Australian, Canadian and United Kingdom income tax returns is offered at H&R Block offices in Australia, Canada and the United Kingdom, respectively.

The returns prepared at 1,376 company-owned and franchised offices in countries outside of the United States constituted 11.9% of the total returns prepared by H&R Block in the last fiscal year (compared to 12.2% in fiscal year 2001 and 12.3% in fiscal year 2000).

Canadian Operations. H&R Block Canada, Inc. (“Block Canada”) and its franchisees prepared approximately 1,721,000 Canadian regular and discounted returns filed with Revenue Canada in fiscal year 2002, compared to 1,752,000 in fiscal year 2001 and 1,805,000 in fiscal year 2000. Block Canada and its franchisees operated 955 offices in fiscal year 2002, as compared to 944 in fiscal year 2001 and 966 in fiscal year 2000. Of the 955 offices in Canada, 492 were owned and operated by Block Canada and 463 were owned and operated by franchisees. Block Canada operated 121 offices in department stores in Canada in fiscal year 2002, including 78 offices in Sears’ facilities. In fiscal years 2001 and 2000, respectively, Block Canada operated 122 and 142 offices in department stores in Canada, including, respectively, 76 and 79 offices in Sears’ facilities.

Block Canada and its franchisees offer a refund discount (“CashBack”) program to their customers in Canada. Canadian law specifies the procedures which Block Canada must follow in conducting the program. In accordance with current Canadian regulations, if a customer’s tax return indicates that such customer is entitled to a tax refund, a check is issued by Block Canada to the client for an amount which is equal to the sum of (i) 85% of that portion of the anticipated refund which is less than or equal to $300 and (ii) 95% of that portion of the refund in excess of $300. The client assigns to Block Canada the full amount of the tax refund to be issued by Revenue Canada. The refund check is then sent by Revenue Canada directly to Block Canada, which then deposits the refund check into its bank account. In accordance with the law, the discount is deemed to include both the tax return preparation fee and the fee for tax refund discounting. This program is financed by short-term borrowings. In some parts of Canada, CashBack services are offered at offices identified as “H&R Block Express.” The number of returns discounted under the CashBack program in fiscal year 2002 was approximately 525,000, compared to 532,000 in fiscal year 2001 and 547,000 in fiscal year 2000.

Block Canada also provides check cashing and other low-end financial services through its subsidiary Cashplan Systems Inc. These services are offered in offices operated under the name “Financial Stop,” where no tax return preparation services are offered, as well as in some H&R Block Express offices.

During fiscal year 2002, Block Canada contracted with Dr. Tax-Ufile CA, Inc. to provide online tax preparation services under the H&R Block brand to Canadian consumers. Users could print and mail their return, or download their return and file electronically.

Australian Operations. The number of returns prepared by H&R Block Limited, the Company’s indirect subsidiary in Australia, and by franchisees in Australia, increased to approximately 489,000 from 486,000 in fiscal year 2001 and 455,000 in fiscal year 2000. The number of offices operated by H&R Block in Australia in fiscal year 2002 was 362, compared to 350 offices in fiscal year 2001 and 349 offices operated in fiscal year 2000. Of the 362 offices, 263 were owned and operated by H&R Block Limited and 99 were franchised offices.

United Kingdom Operations. The Tax Team Limited, an indirect subsidiary of the Company, provides tax return preparation services in the United Kingdom. The Tax Team Limited operated 6 offices in fiscal year 2002, compared to 23 offices operated in fiscal year 2001 and 26 in fiscal year 2000.

Seasonality of Business. Revenues in this segment are seasonal in nature with peak revenues occurring during the applicable tax season (January through April in Canada; July through October in Australia; and August through March in the United Kingdom).

Competitive Conditions. The tax return preparation business is highly competitive, with a substantial number of firms offering tax preparation services. Block Canada and H&R Block Limited believe that they each operate the largest tax return preparation business in their respective countries. The Tax Team Limited believes that it is one of the largest providers of tax preparation services in the United Kingdom.

Government Regulation. Statutes and regulations relating to income tax return preparers, electronic filing, franchising and other areas affecting the income tax business also exist outside of the United States. In addition, the Canadian government regulates the refund discounting program in Canada, as discussed under "Canadian Operations," above. These laws have not materially affected the international tax operations conducted by subsidiaries of the Company.

Mortgage Operations

Generally. Mortgage operations originate, service, and sell conforming and nonconforming mortgage loans in the United States. Conforming mortgages are those that may be offered through government sponsored loan agencies. Nonconforming mortgages are those that may not be offered through government-sponsored loan agencies and typically involve borrowers with impaired credit and have substantial equity in the property which will be used to secure the loan. Wholesale mortgage originations are offered by Option One Mortgage Corporation ("Option One") and retail mortgage originations are offered by H&R Block Mortgage Corporation, a wholly owned subsidiary of Option One.

Option One Mortgage Corporation. Option One, based in Irvine, California, has a network of more than 16,000 mortgage brokers in 49 states. Option One originated $11.5 billion in mortgage loans in fiscal year 2002, compared to $6.5 billion in fiscal year 2001 and $5.7 billion in fiscal year 2000. The average Option One loan during fiscal year 2002 had a $128,200 principal balance (compared to $108,800 in fiscal year 2001 and $106,700 in fiscal year 2000), and was secured by a first lien on a single-family residence. During fiscal 2002, Option One sold $11.4 billion of mortgage loans, compared to $6.0 billion sold in fiscal 2001 and $6.1 billion in fiscal 2000. At the end of fiscal year 2002, Option One's servicing portfolio was 209,600 loans totaling more than $23.8 billion, compared to 173,900 loans totaling $18.2 billion at the end of fiscal 2001 and 114,300 loans totaling $11.3 billion at the end of fiscal 2000.

Wholesale originations represented the substantial majority of Option One's total loan production. Wholesale loan originations involve a broker who assists the borrower in completing the loan application, the gathering of necessary information and identifying a lender that offers a loan product which is best suited to the borrower's financial needs. Brokers are free to submit an application to one or more nonconforming lenders, such as Option One. Upon receipt of an application from a broker, Option One's branch office processes and underwrites the loan. Based upon this review, Option One advises the broker whether the loan application meets Option One's underwriting guidelines and product description by issuing a loan approval or denial, and in some cases, issues a "conditional approval," which requires the submission of additional information or clarification. Option One sells virtually all of its loan production through whole loan sales to a third-party trust as a part of its off-balance financing arrangements described below.

The Company utilizes off-balance sheet arrangements to fund its nonprime production. Option One has arranged commitments from two banks totaling $2 billion for external warehouse financing for

the third-party trust for its nonprime mortgage production during most of fiscal year 2002, and it renewed these commitments in April 2002 for a 12-month period.

H&R Block Mortgage Corporation. H&R Block Mortgage is a retail mortgage lender for conventional, non-conventional and government loans and is licensed to conduct business in 50 states. H&R Block Mortgage is an approved seller/servicer for Fannie Mae and Freddie Mac and is HUD authorized to originate and underwrite FHA and VA mortgage loans. In fiscal year 2002, H&R Block Mortgage originated retail mortgage loans from various sales channels, including 38 branch offices in 16 states, and three regional call centers located in Philadelphia, Pennsylvania, Tampa, Florida and Pleasanton, California. H&R Block Mortgage had 35 branch offices in 15 states and two regional call centers in fiscal year 2001.

H&R Block Mortgage maintains a strategic alliance with Countrywide Home Loans, Inc. ("Countrywide") to sell 90% of its qualifying conforming mortgage loans to Countrywide. The majority of mortgage loans sold to Countrywide are underwritten through an automated system under which H&R Block Mortgage's representations and warranties relating to compliance with Countrywide's underwriting guidelines are assumed by Countrywide. This alliance allows H&R Block Mortgage to achieve improved execution due to price, efficiencies in delivery, and elimination of redundancies in operations.

Service Marks and Trademarks. Option One claims ownership of the following service marks and trademarks registered on the principal register of the United States Patent and Trademark Office:

AppOne
CorOne
Highway 1
HouseKeeper
No Sweat 95!
Option One and Design
PartnerPlus
SumOne
The Big 2

Competitive Conditions. Both the conventional and nonprime sectors of the residential mortgage loan market are highly competitive. The principal methods of competition are in service, quality and price. There are a substantial number of companies competing in the residential loan market, including mortgage banking companies, commercial banks, savings associations, credit unions and other financial institutions. No one firm is a dominant supplier of conforming and nonconforming mortgage loans.

Seasonality of Business. Residential mortgage volume is subject to seasonal trends, with real estate sales being generally lower in the first calendar quarter of the calendar year, peaking in the spring and summer seasons, and then declining again in November and December. Accordingly, the revenues of the mortgage operations reporting segment are generally higher in the peak months, but the seasonal trends do not have a material impact on overall results of the Company.

Government Regulation. The Company believes that Federal and state statutes and regulations, as well as county and municipal regulations and ordinances, governing mortgage lending have not had a material adverse effect on the operations of its mortgage subsidiaries. However, the Company cannot predict what the effect may be of the enactment of new state or Federal statutes or municipal ordinances,

or the adoption of new Federal, state or county regulations, particularly with respect to the regulation of "High Cost Loans" as described below.

Applicable state laws generally regulate interest rates, other than first mortgage loans which are subject to a Federal preemption of all state usury laws, and other charges, require certain disclosures and, unless an exemption is available, require licensing of the originators of certain mortgage loans. In addition, most states have other laws, public policies and general principles of equity relating to the protection of consumers, unfair and deceptive practices, and practices that may apply to the origination, servicing and collection of mortgage loans.

During fiscal years 2001 and 2002, there was a noticeable increase in state, county and municipal statutes, ordinances and regulations which prohibit or regulate so-called "Predatory Lending" practices. Predatory Lending statutes regulate "High-Cost Loans" which are defined separately by each state, county or municipal statute, regulation or ordinance, but generally include mortgage loans that have interest rates that exceed a specified margin over the Treasury Index for a comparable maturity, or exceed a designated percentage of points and fees. Statutes, ordinances and regulations that regulate High-Cost Loans generally prohibit mortgage lenders from engaging in certain defined practices, or require mortgage lenders to implement certain practices, in connection with any mortgage loans that fit within the definition of a High-Cost Loan. For example, many such laws and regulations prohibit mortgage lenders from imposing a prepayment penalty in connection with any mortgage loan that fits within the definition of a High-Cost Loan or require mortgage lenders to demonstrate a tangible net benefit to the Borrower as a result of the Borrower's entering into the mortgage loan transaction involving a High-Cost Loan.

The mortgage loans purchased or originated by the Company's mortgage subsidiaries are also subject to Federal laws and regulations, including, without limitation, the Federal Truth-in-Lending Act, as amended, and Regulation Z promulgated thereunder, the Equal Credit Opportunity Act, as amended, and Regulation B promulgated thereunder, the Fair Credit Reporting Act, as amended, the Federal Real Estate Settlement Procedures Act, as amended, and Regulation X promulgated thereunder, the Soldiers' and Sailors' Civil Relief Act of 1940, as amended, the Home Mortgage Disclosure Act and Regulation C promulgated thereunder, the Federal Fair Housing Act, the Gramm-Leach-Bliley Act and regulations adopted thereunder, and certain other laws and regulations. Under environmental legislation and case law applicable in certain states, it is possible that liability for environmental hazards in respect of real property may be imposed on a holder of a mortgage note secured by real property.

Investment Services

Generally. The investment services operating segment provides investment advice, brokerage services and investment planning primarily through H&R Block Financial Advisors, Inc. (formerly OLDE Discount Corporation). In December 1999, the Company acquired OLDE Financial Corporation ("OLDE Financial"), a Detroit-based financial services holding company that is the parent company of HRBFA.

HRBFA is a registered broker-dealer with the SEC and is a member of the New York Stock Exchange ("NYSE"), other national securities exchanges and the National Association of Securities Dealers, Inc. ("NASD"). HRBFA is one of the largest retail investment firms in the United States offering financial advice and other financial services to retail clients at low commission rates and fees through its network of financial advisors in HRBFA branch offices.

HRBFA, like other brokerage firms, continued to suffer from declining activity by retail investors during the Company's 2002 fiscal year and a corresponding decline in margin balances. Average trading volumes fell during the year by more than 38.7% as measured by average trades per day. Impacted by market performance, volatility and investor uncertainty, margin balances at HRBFA had fallen from an average of $2.4 billion as of April 30, 2001 to an average of $1.0 billion as of April 30, 2002.

In an effort to reduce expenses to counteract reduced revenues, HRBFA reduced approximately 3.3% percent of its total workforce in non-advisor positions in October 2001, following a reduction of 6% of its total workforce at the end of fiscal year 2001. Several support functions at HRBFA were eliminated or consolidated and aligned with corresponding departments within other subsidiaries of the Company.

Despite the difficult financial and market environment, HRBFA expanded its product line to offer clients the Wealth Management Account (a fee based pricing alternative).

HRBFA Brokerage and Other Services. HRBFA is a full service securities broker-dealer providing a full range of financial services to its clients in the United States. It typically effects transactions for its clients at commission rates lower than the rates full-commission brokerage firms charge. Revenues from HRBFA's brokerage activities are generated through client purchases and sales of stocks, investment-grade fixed income products, options, mutual funds, investment trusts, annuities, and other financial products. Commissions may be charged on both listed and over-the-counter ("OTC") transactions executed on an agency basis or customers may pay the firm a quarterly fee through the Wealth Management Account. HRBFA also offers services and products typically offered by traditional full-commission firms, such as investment research with regard to individual securities and goal-oriented investment planning. Other services and products offered include money market funds with sweep provisions for settlement of client transactions; margin accounts; checking privileges; option accounts; dividend reinvestment plans; and individual retirement accounts ("IRAs").

During the 2002 tax season, H&R Block tax clients nationwide were given the opportunity to open an Express IRA through HRBFA as a part of the tax return preparation process. Clients were able to open an Express IRA by simply using all or part of their tax refund or by writing a personal check for the IRA amount. The Express IRA is invested in an FDIC Insured money market account through Reserve Management Corporation at an insured depository institution paying competitive money market interest rates. Clients funded approximately 130,000 Express IRAs in fiscal year 2002, an increase from 25,000 Express IRAs in fiscal year 2001. The Express IRA program was offered in only 14 states in fiscal 2001.

HRBFA offers to account holders a service that makes it possible for clients to handle all of their investment and banking activities from one convenient, flexible brokerage account with cash management features. The cash management features include no-minimum checking, unlimited check writing, a credit interest program that allows interest to be earned on balances over $100, a variety of money market fund options, a VISA® Gold ATM/check card with a 1% cash rebate on card purchases and an airline miles program, one consolidated monthly statement and a year-end account summary. HRBFA also offers college savings products – called 529 Plans – through state-sponsored investment programs that allow clients to make tax-free withdrawals for qualified education expenses.

Dealer and Market Making Activities. Until April 2002, HRBFA was also a dealer and engaged in market making activities in common stocks, regularly trading in securities on a principal basis and for its own account in the National Association of Securities Dealers Automated Quotation System ("NASDAQ"), and OTC markets. HRBFA also acted as a qualified dealer in certain listed securities on

the Cincinnati Stock Exchange. HRBFA acts as a dealer in fixed income markets including corporate and municipal bonds, various U.S. Government and U.S. Government Agency securities and certificates of deposit. Market declines that began in the Spring and Summer of 2000 continued through fiscal year 2002, exacerbated by the September 11 tragedies which further eroded investor confidence. Revenues derived from equity market making activities declined as a result of reduced trading volume. In addition, fractional trading for equity securities was replaced by decimalization. As a result of decimalization, the market maker spread, the difference between bid and asked prices, and overall reduced trading volumes, trading revenues declined 29.1%. This decline in revenues along with a business strategy to move the Company toward an advice-based model (in order to better serve a larger population of clients) prompted HRBFA to withdraw from equity market making activities in equity securities in April 2002.

Financial Advisor Compensation. Financial advisors receive compensation in a combination of plans in the form of commissions on HRBFA's revenues from customer transactions, a salary or draw against commissions, a percentage of quarterly fees charged to clients, and/or may have received additional compensation on customer transactions in securities recommended by HRBFA.

Tax Professional Financial Advisors. During fiscal year 2002, the Company's subsidiaries further expanded the Tax Professional Financial Advisor ("TPFA") program, by which H&R Block tax professionals expand their roles to provide financial services to tax clients. TPFAs have licenses to sell mutual funds and/or insurance products and in some instances, equity securities recommended by HRBFA. The number of TPFAs grew from 430 to over 600 during the 2002 fiscal year and they provided investment services to more than 6,100 tax clients.

Integrated Online Services. HRBFA provides an online investment center through the Company's web site located at *www.hrblock.com*. HRBFA provides online users the opportunity to open accounts, obtain research, create investment plans, buy and sell securities, and view the status of their accounts online. The online investment planning service gives HRBFA clients the ability to create and view a personal goal oriented investment while simultaneously receiving advice by telephone from an H&R Block financial advisor who is viewing the same information. Clients can create, view or edit a financial plan for many different life-changing events such as retirement, college, a new child or the purchase of a house. After developing a plan, clients have the option to allow an advisor to execute the plan or they can do it themselves at the investment center. Through April 2002, approximately 175,100 accounts had been web enabled, compared to approximately 96,000 accounts through April 2001, and, in April 2002, more than 15,600 securities transactions were effected online (compared to more than 7,000 transactions effected online in April 2001). Additional information regarding online operations is provided under the "E-Commerce Initiatives" in the "U.S. Tax Operations" section, above.

Advertising and Marketing. Advertising and marketing play a significant role in the expansion of HRBFA's client base as well as the introduction of new products and services. HRBFA may use a combination of media including newspapers, magazines, the yellow pages, television, and its Internet home page to advertise and market its products and services. When an investor contacts HRBFA, the investor receives a package of information including an account application and a brochure containing information on the services and products offered by HRBFA. Additional detailed information is available upon request and can be tailored to match the client's investment preferences.

Retail Branch Offices. HRBFA is authorized to do business as a broker-dealer in all 50 states and the District of Columbia. At fiscal year end, HRBFA operated over 600 offices as compared to 525 offices at the end of fiscal year 2001 and 198 offices at the end of fiscal year 2000. Some HRBFA offices offer, in addition to financial products and services, tax preparation and mortgage services, year-round to clients. HRBFA believes that the existence of branch offices contributes to its growth and client

satisfaction. The existence of a branch office generally results in an increase in unsolicited customer transactions in the geographic area near the office. Many clients prefer to conduct business in person in local rather than in distant offices or online. Clients may use branch offices to receive and deliver checks and deliver securities.

Service Marks and Trademarks. HRBFA claims ownership of the following service marks and trademarks registered on the principal register of the United States Patent and Trademark Office:

Chevron Design	SmartTrading
IRA United	SmartTravel
The OLDE Investors Account	SmartVest
SmartBroker	SmartVestor
SmartRetirement	SmartViews
SmartTrade	SmartWire
Netwealth	The Easy Way to Financial Success
Netwealth and Design	

Competitive Conditions. HRBFA competes directly with a broad range of companies seeking to attract consumer financial assets, including full-service brokerage firms, discount and online brokerage firms, mutual fund companies, investment banking firms, commercial and savings banks, insurance companies and others. The financial services industry has become considerably more concentrated as numerous securities firms have been acquired by or merged into other firms. Some of these competitors have greater financial resources than HRBFA and offer certain additional financial products and services. In addition, HRBFA expects competition from domestic and international commercial banks and larger securities firms to continue to increase as a result of legislative and regulatory initiatives in the U.S. (including the passage of the Gramm-Leach-Bliley Act in November 1999 and the implementation of the U.S.A. Patriot Act in April 2002) to remove or relieve certain restrictions on mergers between commercial banks and other types of financial services providers and extend privacy provisions and anti-money laundering procedures across the financial services industry. HRBFA primarily competes with these firms on quality of service, breadth of products and services offered, prices, accessibility through delivery channels, and technological innovation and expertise.

Discount brokerage firms and online-only financial services providers compete vigorously with HRBFA with respect to commission charges. Full-commission brokerage firms also offer more product breadth, discounted commissions and online services to selected retail brokerage customers. In addition, some competitors in both the full-commission and discount brokerage industries have substantially increased their spending on advertising and direct solicitation of customers.

Competition in the online trading business has become similarly intense as recent expansion and customer acceptance of conducting financial transactions online has attracted new brokerage firms to the market. Price competition continues to intensify in online investing as traditional brokerage firms have entered the market and existing competitors have aggressively sought to gain market share.

Seasonality of Business. The investment services operating segment does not, as a whole, experience significant seasonal fluctuations. However, the securities business is cyclical and directly affected by national and world economic and political conditions, trends in business and finance and changes in the conditions of the securities markets in which HRBFA's clients trade.

Government Regulation. The securities industry is subject to extensive regulation covering all aspects of the securities business, including registration of HRBFA's offices and personnel, sales

methods, the acceptance and execution of customer orders, the handling of customer funds and securities, trading practices, capital structure, record keeping policies and practices, margin lending, execution and settlement of transactions, the conduct of directors, officers and employees, and the supervision of employees. The various governmental authorities and industry self-regulatory organizations which have supervisory and regulatory jurisdiction over the Company's broker-dealer subsidiaries generally have broad enforcement powers to censure, fine, issue cease-and-desist orders or suspend or expel a broker-dealer or any of its officers or employees who violate applicable laws or regulations.

The Securities and Exchange Commission is the federal agency responsible for the administration of the federal securities laws. HRBFA is registered as broker-dealer. Much of the regulation of broker-dealers has been delegated by the SEC to self-regulatory organizations, principally the Municipal Securities Rulemaking Board, the NASD Regulation, Inc. and the New York Stock Exchange ("NYSE"), which has been designated as HRBFA's primary regulator. These self-regulatory organizations adopt rules (subject to approval by the SEC) that govern the industry and conduct periodic examinations of the operations of HRBFA's brokerage and clearing activities. Securities firms are also subject to regulation by state securities administrators in those states in which they conduct business.

As a registered broker-dealer, HRBFA is subject to the Net Capital Rule (Rule 15c3-1) promulgated by the SEC and adopted through incorporation by reference in NYSE Rule 325. The Rule, which specifies minimum net capital requirements for registered brokers and dealers, is designed to measure the financial soundness and liquidity of a broker-dealer and requires at least a minimum portion of its assets be kept in liquid form.

HRBFA has elected to compute net capital under the alternative method of computation permitted by Rule 15c3-1 which requires that net capital be not less than the greater of $1,000,000 or 2% of combined aggregate debit balances (primarily receivables from customers and other broker-dealers). In computing net capital, various deductions are made from net worth and qualifying subordinated indebtedness. These deductions include the book value of assets not readily convertible into cash and prescribed percentages of securities owned or sold short.

Any failure of HRBFA to maintain the required minimum net capital may subject HRBFA to suspension or revocation of registration or other limitations on the firm's activity by the SEC, and suspension or expulsion by the NYSE, NASD or other regulatory bodies, and ultimately could require the broker-dealer's liquidation. HRBFA could also be prohibited from paying dividends or redeeming stock. HRBFA would be prohibited from prepaying or making payments of principal on subordinated indebtedness if its net capital were to become less than the greater of 5% of combined aggregate debit balances or $1,000,000. Under NYSE Rule 326, HRBFA is required to reduce its business if its net capital is less than 4% of aggregate debit balances and is prohibited from expanding business or redeeming subordinated indebtedness if its net capital is less than 5% of its aggregate debit balances. Net capital rules could limit HRBFA's ability to engage in new activities and expansion, and could restrict the Company's ability to withdraw capital from its brokerage subsidiaries. Such a restriction in turn, could limit the Company's ability to repay or reduce indebtedness (including subordinated debentures of the Company) and pay dividends. Further, a significant operating loss or an extraordinary charge against net capital could adversely affect HRBFA's ability to expand or maintain its current levels of business. At April 30, 2002, HRBFA's net capital of $143.5 million, which was 16.4% of aggregate debit items, exceeded by $126.0 million its minimum required net capital of $17.5 million. HRBFA made a capital withdrawal and paid BFC a dividend of $50 million at fiscal year-end.

Business Services

Generally. The business services operating segment, which is conducted primarily through RSM McGladrey, Inc., a direct subsidiary of HRB Business Services, Inc. ("HRBBS"), provides accounting, tax, consulting, payroll, employee benefits and capital market services to business clients, primarily mid-sized companies, and tax, estate planning and financial planning services to individuals in the United States. RSM was formed to acquire in August 1999 substantially all of the non-attest assets of McGladrey & Pullen, LLP ("McGladrey").

In addition to providing the aforementioned services to the public, RSM and certain other subsidiaries involved in the business services segment provide management and administrative services to certain public accounting firms from which non-attest assets have been acquired. RSM receives fees from the public accounting firms, which continue to provide "attest" services that constitute the practice of public accounting which H&R Block and its subsidiaries, by regulation, generally cannot provide.

RSM McGladrey, Inc. RSM has more than 100 offices and offers services in 18 of the top 25 U.S. markets. RSM is also linked with more than 70 independently owned CPA firms in the United States and Puerto Rico through the McGladrey Network. In addition, RSM is the U.S. member of RSM International, the eighth largest accounting and consulting organization in the world, with 600 offices in 64 countries.

On August 1, 2001, RSM acquired O'Rourke Sacher & Moulton Professional Corporation, a leading professional service firm serving the credit union industry with offices in Los Angeles and Brisbane, California (the San Francisco Bay Area); Dallas, Texas; Boston, Massachusetts and Bellevue, Washington. The acquired operations were combined with RSM's existing credit union practice to create one of the nation's largest credit union consulting practices.

On September 1, 2001, RSM purchased the non-attest and non-tax related assets of Knight Vale & Gregory PLLC ("KVG"), an accounting firm with offices in Olympia, Renton, Seattle and Tacoma, Washington. This acquisition added a staff of over 150 individuals to RSM.

Other acquisitions by RSM in fiscal year 2002 enabled it to strengthen its presence in Cedar Rapids, Iowa; Chicago, Illinois; Dallas, Texas and Naples, Florida and expand its operations to Stamford, Connecticut.

On December 6, 2001, HRBBS purchased approximately 44 percent of the outstanding common shares of MyBenefitSource, Inc. ("MBS"), an Atlanta-based firm that provides a wide range of payroll, benefit, enrollment and administrative services. HRBBS has an option to acquire the remaining shares of MBS. HRBBS also owns 100% of the outstanding preferred shares of MBS, each of which is convertible into one share of MBS common stock. In addition to its own client base, MBS interacts with RSM to provide RSM clients payroll and benefit administration outsourcing services.

On December 14, 2001, HRBBS acquired EquiCo Resources, LLC, a business valuation and investment banking firm that specializes in mergers and acquisitions, divestitures and corporate finance services for middle-market companies. The acquired business is operated through RSM EquiCo, Inc.

(“RSM EquiCo”), a wholly owned subsidiary of HRBBS. RSM EquiCo works closely with RSM to help middle-market companies evaluate, improve, grow and sell their businesses.

McGladrey’s attest business (including audit, reviews and other engagements in which the firm issues written opinions evaluating client financial statements) remains in a partnership owned by the McGladrey & Pullen, LLP partners and is, accordingly, an entity separate from RSM and not an affiliate of the Company.

Until last year, the SEC had no published rules on the application of the auditor independence rules to firms such as McGladrey, whose partners are also employed by RSM. On February 5, 2001, revised SEC auditor independence rules that apply to the accounting firm and its “associated entities” became effective. The SEC staff has advised McGladrey that it considers the Company and all of its subsidiaries to be associated entities. Accordingly, any financial interest or business relationship of the Company with a client of McGladrey that is subject to the SEC’s auditor independence rules (an SEC Audit Client) will be regarded by the SEC staff as a financial interest or business relationship between McGladrey and the SEC Audit Client. Under the SEC’s auditor independence rules, McGladrey and its partners are precluded from holding certain financial interests in and entering into certain business relationships with an SEC Audit Client for whom McGladrey performs audit services.

In connection with the evaluation of the regulatory restrictions and environment, the Company and McGladrey have had discussions with the staff of the SEC regarding appropriate disclosure of the policy and procedures that have been implemented by McGladrey, RSM and the Company to safeguard McGladrey’s independence and integrity as an audit firm in compliance with applicable regulations and professional responsibilities.

The Company, RSM and McGladrey have enacted certain policies and controls to monitor and prevent violations by them of the SEC’s auditor independence rules as interpreted by the SEC staff. These policies and controls include the following:

- The Company has informed the management of each of its business units of the SEC staff’s interpretation that certain financial interests and business relationships with McGladrey SEC Audit Clients are prohibited in as much as they would be deemed to impair McGladrey’s independence as an auditor.

- McGladrey’s Independence and Relationship Policies and the Code of Professional Conduct promulgated by the American Institute of Certified Public Accountants (“AICPA”), which address auditor independence issues, have been distributed to all of the Company’s executive officers and directors.

- McGladrey’s Prohibited Securities List, which lists securities of McGladrey SEC Audit Clients, is distributed to the Company’s executive officers and directors on a monthly basis so that they can monitor compliance by the business units for which they are responsible.

- McGladrey informs the audit committee of each SEC Audit Client, in writing, of the SEC staff’s interpretation regarding the attribution to McGladrey, for purposes of McGladrey’s auditor independence of the financial interests and business relationships of the Company with SEC Audit Clients.

- McGladrey informs the audit committee of each SEC Audit Client of the SEC staff’s interpretation that ownership of the Company’s stock by such SEC Audit Client or ownership of more than 5% of the Company’s stock by its officers or directors would affect McGladrey’s independence as an auditor, and McGladrey obtains representations from each SEC Audit Client that it owns no shares of the Company.

- McGladrey has designated a partner responsible for independence matters who reports directly to its Managing Partner. The partner responsible for independence matters monitors changes in independence standards promulgated by the AICPA, the Independence Standards Board ("ISB", which has been disbanded) and the SEC. This partner periodically recommends corresponding modifications to McGladrey's Independence and Relationship Policies that become effective upon the approval of McGladrey's Board of Directors.

- RSM has agreed to comply and cause its employees to comply with the Independence and Relationship policies of McGladrey.

- Employees of RSM and employees of McGladrey are informed of changes to McGladrey's Independence and Relationship Policies and its Prohibited Securities List on a monthly basis via electronic bulletin boards.

- Employees of RSM and partners and employees of McGladrey periodically complete an Independence Compliance Questionnaire that is reviewed and approved by McGladrey's National Office of Audit & Accounting. All exceptions are reviewed by and approved by McGladrey's partner responsible for independence matters, its Managing Partner and its Board of Directors.

- As mandated by its membership in the SEC Practice Section of the AICPA, McGladrey has implemented independence training programs and programs to test compliance with its Independence and Relationship Policies and the completeness and accuracy of Independence Compliance Questionnaires.

- McGladrey has established consultation procedures for the resolution of all identified exceptions to its policies and AICPA, ISB or SEC independence requirements. The Company and RSM have agreed to cooperate fully with McGladrey in the resolution of all exceptions and the implementation of any remedial actions, including disciplinary actions.

While the Company and McGladrey believe that their policies and controls in place regarding auditor independence are reasonable and adequate to address the matters involved, there can be no assurance (and the SEC staff has indicated that it cannot provide any assurance) that such policies and controls will positively ensure complete compliance by the Company, RSM and McGladrey with the SEC auditor independence rules as interpreted by the SEC staff. Any noncompliance by the Company, RSM or McGladrey with such rules may impair McGladrey's independence as an auditor of SEC Audit Clients and may adversely affect the ability of McGladrey to attract and retain such clients and perform audits of financial statements filed with the SEC.

Seasonality of Business. Revenues for this segment are seasonal in nature, with peak revenues occurring during January through April.

Service Marks and Trademarks. RSM claims ownership of the following service marks and trademarks registered on the principal register of the United States Patent and Trademark Office:

Business Recovery Planning System
Business Continuity Planning System

RSM claims ownership of the following unregistered service marks and trademarks:

E-Accounting
McGladrey Network
Market Builder
PersonalProsperity

Value Enhancement Solutions
We Can See It
We See It

FERS Business Services, Inc. (“FERS”), a wholly owned subsidiary of RSM, claims ownership of the following service marks and trademarks registered on the principal register of the United States Patent and Trademark Office:

Because Results Come First
Benelink
FERS Profit Edge
Tonelink

FERS claims ownership of the following unregistered service mark and trademark:

Pension Resources

MBS claims ownership of the following unregistered service mark and trademark:

MyBenefitSource

Practice Development Institute, Inc. (“PDI”), a direct subsidiary of HRBBS, claims ownership of the following service marks and trademarks registered on the principal register of the United States Patent and Trademark Office:

CPEC
PDI Practice Development Institute

PDI claims ownership of the following unregistered service mark and trademark:

Turning Your Firm’s Potential Into Profit

RSM EquiCo claims ownership of the following service mark and trademark registered on the principal register of the United States Patent and Trademark Office:

EquiCo

RSM EquiCo claims ownership of the following unregistered service mark and trademark:

Buying Into America: Middle Market Mergers and Acquisitions

Toback, Inc., a wholly owned subsidiary of RSM, claims ownership of the following service marks and trademarks registered on the principal register of the United States Patent and Trademark Office:

Solutions for Today. Strategies for Tomorrow.
The Local Firm with a National Reputation

Competitive Conditions. The accounting and consulting business is highly competitive. There are a substantial number of accounting firms offering similar services at the international, national, regional and local levels.

Government Regulation. Many of the same Federal and state regulations relating to tax preparers and the information concerning tax reform discussed above in “Government Regulation” section of “U.S. Tax Operations” apply to the business services segment as well, except that accountants are not subject to the same prohibition on the use or disclosure of certain income tax return information as the Tax Services tax professionals are. These accounting firms are also subject to state and Federal regulations governing accountants, auditors and financial planners. During the past year, numerous legislative and regulatory proposals have been made relating to auditor independence and accounting oversight, among others. Some of these proposals, if adopted, could have an impact on RSM’s operations. The Company believes that current state and Federal regulations and known legislative and regulatory proposals do not and will not have a material adverse effect on the operations of the Company and its subsidiaries, but it cannot predict what the effect of future legislation, regulations and proposals may be.

Item 2. Properties

The executive offices of the Company, H&R Block Services, Inc., Tax Services, BFC and HRBBS are located at 4400 Main Street, Kansas City, Missouri, in a multi-level building owned by H&R Block Tax Services, Inc. The building was constructed in 1963 and expanded or redesigned in 1965, 1973, 1981, and 1996. In fiscal year 2000, H&R Block Tax Services, Inc. entered into a 20-year lease for a newly constructed building located at 4400 East Blue Parkway, Kansas City, Missouri, which is being utilized by Tax Services and its affiliates as a service center. Most other offices of Tax Services (except those in department stores) are operated in premises held under short-term leases providing fixed monthly rentals, usually with renewal options. The Company’s subsidiaries also lease other office space in Kansas City, Missouri.

Option One’s executive offices are located in leased offices at 3 Ada, Irvine, California. Option One also leases offices for its branch office operations throughout the United States. H&R Block Mortgage is headquartered in leased offices in Burlington, Massachusetts. H&R Block Mortgage also leases offices in Arizona, California, Colorado, Connecticut, Florida, Illinois, Indiana, Massachusetts, Maine, Michigan, New Hampshire, New Jersey, Ohio and Virginia.

The executive offices of HRBFA and OLDE Financial are located at 751 Griswold, Detroit, Michigan in a building owned by OLDE Financial. Many branch offices of HRBFA are located in facilities owned by various real estate subsidiaries of OLDE Financial and leased primarily to HRBFA. Some branch offices are operated in leased premises.

RSM’s executive offices are located in leased offices located at 3600 West 80th Street, Bloomington, Minnesota. Its administrative offices are located in leased offices at 220 North Main Street, Davenport, Iowa. RSM also leases office space in 25 states.

Item 3. 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 is unspecified, but included pleas for rescission and damages.

In the class action pending in state court, the court issued, in November 2000, its order approving a settlement pursuant to which the defendants agreed to pay a gross settlement amount of $9.5 million in exchange for dismissal of the class action suit and a release of all claims. 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 agreement to settle and the 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 Florida State Board of Administration opted out of the class action settlement and that litigation continued separately from the state court class action. The parties reached a settlement that disposed of the case in its entirety with the payment by the defendants of $500,000. Such settlement was paid in its entirety by the Company's insurance carrier and is not an admission of the validity of any claim or fact alleged by the Florida State Board of Administration. With this settlement, the CompuServe litigation relating to the 1996 initial public offering is concluded.

The Company and its subsidiaries are involved in various litigation and claims as both defendant and plaintiff relating to matters which arise in the normal course of business. While the amounts claimed in these matters are substantial in some instances and the ultimate liability with respect to such litigation and claims is difficult to predict, management believes that amounts, if any, required to be paid by the Company and its subsidiaries in the discharge of liabilities or settlements will not have a material adverse effect on the Company's consolidated results of operations or financial position.

Item 4. Submission of Matters to a Vote of Security Holders.

No matters were submitted to a vote of security holders, through the solicitation of proxies or otherwise, during the fourth quarter of the fiscal year ended April 30, 2002.

Item 4a. Executive Officers of the Registrant.

The names, ages and principal occupations (for the past five years) of the executive officers of the Company, each of whom has been elected to serve at the discretion of the Board of Directors of the Company are as follows:

Name and age	Office(s)
Frank L. Salizzoni (64)	Chairman of the Board of Directors since September 2000; Chief Executive Officer from June 1996 through December 2000; President from June 1996 through September 1999; Member of the Board of Directors since 1988. See Note 1.
Mark A. Ernst (44)	Chief Executive Officer since January 2001; President of the Company since September 1999; Chief Operating Officer from September 1998 through December 2000; Executive Vice President from September 1998 until

	September 1999. Member of the Board of Directors since September 1999. See Note 2.
Jeffery W. Yabuki (42)	Chief Operating Officer since April 2002; Executive Vice President since October 2000; President, H&R Block Services, Inc. since October 2000; President, H&R Block International from September 1999 until October 2000. See Note 3.
Jeffery G. Brandmaier (43)	Senior Vice President and Chief Information Officer since October 2001. See Note 4.
David F. Byers (40)	Senior Vice President and Chief Marketing Officer since June 1999. See Note 5.
Frank J. Cotroneo (43)	Senior Vice President and Chief Financial Officer since February 2000. See Note 6.
Robert E. Dubrish (50)	President and Chief Executive Officer, Option One Mortgage Corporation, since March 1996. See Note 7.
James H. Ingraham (48)	Senior Vice President and General Counsel since September 2001; Secretary since June 1990; Vice President and General Counsel from July 1999 until September 2001; Vice President, Legal from October 1996 through June 1999.
Brian L. Nygaard (44)	President and Chief Executive Officer, H&R Block Financial Advisors, Inc., since November 2001. See Note 8.
Stephanie R. Otto (41)	Senior Vice President, Human Resources since July 2000; Vice President, Human Resources from August 1999 through June 2000; Vice President, National Director of Finance, HRB Business Services, Inc., October 1998 until August 1999; Director, Internal Audit, December 1995 until October 1998.
Thomas G. Rotherham (52)	Chief Executive Officer, RSM McGladrey, Inc., since April 2000; President, RSM McGladrey, Inc., since August 1999; Chief Operating Officer, RSM McGladrey, Inc., from August 1999 to April 2000. See Note 9.
Thomas L. Zimmerman (51)	President, H&R Block Tax Services, Inc., since June 1996. See Note 10.
Cheryl L. Givens (36)	Vice President and Corporate Controller since July 1998; Assistant Vice President and Assistant Controller from October 1996 until July 1998. See Note 11.

Linda M. McDougall (49)	Vice President, Communications since July 1999; Assistant Vice President, Communications from November 1995 through June 1999.
Timothy R. Mertz (51)	Vice President, Corporate Tax since October 2000. See Note 12.
Becky S. Shulman (38)	Vice President and Treasurer since September 2001. See Note 13.
Robert A. Weinberger (58)	Vice President, Government Relations, since March 1996.
Bret G. Wilson (43)	Vice President, Corporate Development and Risk Management since October 2000; Vice President, Corporate Planning and Development from September 1999 until October 2000; Vice President, Corporate Development, from December 1997 until September 1999; Vice President, Mortgage Operations, Block Financial Corporation, since March 1997; Vice President, Corporate Counsel and Secretary, Block Financial Corporation, from June 1994 until March 1997.

Note 1: After the conclusion of fiscal year 2002, Mr. Salizzoni announced that he would retire as Chairman of the Board of Directors of the Company and as a director of the Company at the adjournment of the annual meeting of shareholders in September 2002. He served as Chairman of the Board of CompuServe Corporation from October 1996 until January 1998.

Note 2: Mr. Ernst served as Senior Vice President, Third Party and International Distribution for American Express Company, Minneapolis, Minnesota, from July 1997 until June 1998; Senior Vice President, WorkPlace Financial Services, American Express Company, from November 1995 until July 1997.

Note 3: Mr. Yabuki served as President and Chief Executive Officer of American Express Tax & Business Services, Inc., New York, New York, from 1998 to September 1999; and as Vice President, Mergers and Acquisitions, American Express, Minneapolis, Minnesota, from 1996 to 1998.

Note 4: Mr. Brandmaier was Chief Information Officer for The Money Store, a subsidiary of First Union Bank from 1995 until 2001.

Note 5: Mr. Byers was employed by Foote, Cone and Belding, an advertising agency in San Francisco, California, from June 1987 until May 1999, most recently serving as the Senior Vice President and Director of Business Development.

Note 6: Mr. Cotroneo served as the Chief Financial Officer of MasterCard International, Inc., New York, New York, from 1996 to February 2000.

Note 7:	Block Financial Corporation acquired Option One Mortgage Corporation on June 17, 1997, at which time Mr. Dubrish became an employee of a subsidiary of the Company.
Note 8:	Mr. Nygaard was President, ING Advisors Network, ING Group, Atlanta, Georgia, from October 2000 until October 2001; Chief Operating Officer, Advisors Network, ING Advisors Network, from October 1999 until October 2000; and Senior Vice President, Strategic Marketing, ING Advisors Network, from May 1999 until October 1999. He was Vice President, Retail, for Principal Financial Group, Des Moines, Iowa from January 1995 through April 1999.
Note 9:	Mr. Rotherham served as a Member of the Office of the Managing Partner of McGladrey & Pullen, LLP from 1997 through August 1999 and as the Managing Partner of Audit and Accounting for McGladrey & Pullen LLP from 1995 to 1997. The Company acquired the non-attest assets of McGladrey & Pullen, LLP on August 1, 1999, at which time Mr. Rotherham became an employee of a subsidiary of the Company.
Note 10:	Prior to year end, Mr. Zimmerman announced his retirement as President, H&R Block Tax Services, Inc., effective July 1, 2002.
Note 11:	After the conclusion of fiscal year 2002, Ms. Givens announced her resignation as Vice President and Corporate Controller, effective July 12, 2002.
Note 12:	Mr. Mertz was Vice President of Treasury for Payless Cashways, Inc., a full-line building material and finishing products company, Lee's Summit, Missouri, from September 1998 through September 2000. He also served as Director of Taxes and Risk Management for Payless Cashways, Inc. from October 1987 until September 1998.
Note 13:	Ms. Shulman was Chief Investment Officer of U.S. Central Credit Union, Overland Park, Kansas, from September 1998 until August 2001. She served as Vice President, Asset/Liability for U.S. Central Credit Union from May 1997 until September 1998.

PART II

Item 5. Market for the Registrant's Common Equity and Related Stockholder Matters.

The information called for by this item is contained in part in the Company's annual report to security holders for the fiscal year ended April 30, 2002, under the heading "Common Stock Data," and is hereby incorporated by reference. The Company's Common Stock is traded principally on the New York Stock Exchange. The Company's Common Stock is also traded on the Pacific Exchange. On June 10, 2002, there were 30,946 shareholders of record of the Company.

Item 6. Selected Financial Data.

The information called for by this item is contained in the Company's annual report to security holders for the fiscal year ended April 30, 2002, under the heading "Selected Financial Data," and is hereby incorporated by reference.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The information called for by this item is contained in the Company's annual report to security holders for the fiscal year ended April 30, 2002, under the heading "Management's Discussion and Analysis of Results of Operations and Financial Condition," and is hereby incorporated by reference.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Generally

In the operations of its subsidiaries and the reporting of its consolidated financial results, the Company is affected by changes in interest rates and currency exchange rates. The principal risks of loss arising from adverse changes in market rates and prices to which the Company and its subsidiaries are exposed, and which may be material, relate to:

- interest rates on cash equivalents, available-for-sale securities, residual interests in securitizations, mortgage servicing rights ("MSRs"), mortgage loan origination and purchase commitments, investments in mortgage loans held for sale, debt and margin lending activities, retail trading volumes, commercial paper issuances and

- foreign exchange rates, generating translation gains and losses

The Company and its subsidiaries have market risk sensitive instruments entered into for "non-trading" and "trading" purposes. The Company's broker-dealer holds marketable fixed-income securities for resale to retail clients.

Non-trading

Interest rates. The Company's rate-sensitive assets and liabilities are managed centrally by the office of the Chief Financial Officer of the Company. The Finance Committee of the Company's Board of Directors approves the Company's policies and procedures utilized to manage the Company's interest rate risk.

The Company has established investment guidelines to help minimize the market risk exposure of its non-residual available-for-sale securities portfolio. These guidelines focus on managing liquidity, preservation of principal, and earnings, which are primarily affected by credit quality and movements in interest rates.

Nearly 61% of the Company's cash equivalents ("CE") and available-for-sale securities, which includes residual interests, ("AFS") are classified as short term, compared to 51% last year. The CE assets are primarily held for liquidity purposes and are comprised of high quality, short-term investments, including qualified money market funds (taxable and tax-exempt). As of April 30, 2002, the portfolio had a duration of less than 0.1 years

with an average credit quality of AAA. With such a short maturity, the portfolio's market value is relatively insensitive to interest rate changes.

The Company's residual interests in securitizations, the majority of AFS, and MSRs are subject to prepayment risk, because a mortgage borrower has the option to prepay a mortgage loan at any time. Prepayment risk tends to increase when interest rates fall due to the benefits of refinancing. The expected income from these residual interests and MSRs is sensitive to movements in interest rates due to this sensitivity to mortgage prepayments. The prepayment risk is partially offset with the collection of prepayment penalties, a feature on the majority of originated loans.

Residual interests are recorded based on discounted cash flow models utilizing prepayment, interest rate, credit losses and discount rate assumptions. Prepayment and loss assumptions 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. At April 30, 2002, the sensitivity of the current fair value of the residual interests to a 10% adverse change in prepayment rates would lower the fair value of the residuals by $13.1 million.

Mortgage servicing rights are recorded based on the present value of estimated future cash flows related to servicing loans utilizing market discount rates and anticipated prepayment speeds. The prepayment speeds are estimated using the Company's historical experience and third party market sources for fixed-rate mortgages with similar coupons and prepayment reports for comparable adjustable rate mortgage loans. At April 30, 2002, the sensitivity of the current fair value of MSRs to a 10% adverse change in prepayment rates would lower the fair value by $11.3 million.

Residual assets bear the interest rate risk embedded within the securitization due to an initial fixed rate period on the loans versus the floating rate funding cost, and the on-going basis risk between the indices of the floating rate assets and liabilities, offset somewhat by interest rate caps sometimes embedded within the securitization. An adverse change in interest rates of 10% would impact the fair value of residuals by $35.0 million.

See "Residual Interests in Securitizations and Mortgage Servicing Rights" in the Notes to Consolidated Financial Statements in the Company's annual report to security holders for the fiscal year ended April 30, 2002 for further sensitivity analysis of the other assumptions and detailed explanations of the cash flow models used.

The Company is exposed to interest rate risk associated with its mortgage loan origination and purchase commitments. These commitments to fund mortgage loans consist of fixed and variable rate loans that will be sold in the secondary market. The Company has commitments to fund mortgage loans of $1.7 billion at April 30, 2002, 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. The risk with these commitments to fund mortgage loans is that interest rates might rise between the time the customer locks in the interest rate on the loan and the time the loan is sold. In some instances, the Company will utilize forward contracts on FNMA mortgage-backed securities to reduce the interest rate risk related to its fixed rate origination commitments. It is the Company's policy to utilize these financial instruments only for the purpose of offsetting or reducing the risk of loss in earnings associated with a defined or quantified exposure. They are purchased from certain broker-dealer counterparties. If the counterparties do not fulfill their obligations, the Company may be exposed to default risk. As the risk of default depends on

the creditworthiness of the counterparty, the Company's policy requires that such transactions may be entered into only with counterparties that are rated A or better (or an equivalent rating) by recognized rating agencies. As a matter of practice, the Company has limited the counterparties to major banks and financial institutions meeting such standards. All interest rate contracts conform to the standard International Swaps and Derivatives Association, Inc. documentation.

Commercial paper is issued throughout the year primarily to fund receivables associated with the Business Services segment, mortgage loans held-for-sale, participation in RALs and seasonal working capital needs. At April 30, 2002 and April 30, 2001, no commercial paper was outstanding. For fiscal year 2002, the average issuance term was 22 days and average outstandings were $635 million. This compares with 16 days and $764 million for fiscal year 2001. As commercial paper borrowings are seasonal, interest rate risk typically increases through February and declines to zero by fiscal year-end. See "Financial Condition" under the heading "Management's Discussion and Analysis of Results of Operations and Financial Condition" in the Company's annual report to security holders for the fiscal year ended April 30, 2002.

At April 30, 2002, there were no hedges outstanding related to long-term debt. The Company's long-term debt at April 30, 2002 consists primarily of fixed-rate Senior notes; therefore, a change in interest rates would have no impact on consolidated pretax earnings. See "Long-Term Debt" in the Notes to Consolidated Financial Statements in the Company's annual report to security holders for the fiscal year ended April 30, 2002.

The Company's broker-dealer holds interest bearing receivables from customers, brokers, dealers and clearing organizations which consist primarily of amounts due on margin transactions and are generally short-term in nature. The Company's broker-dealer funds these short-term assets with short-term variable rate liabilities from customers, brokers and dealers, including stock loan activity. Although there may be differences in the timing of the re-pricing related to these assets and liabilities, the Company believes it is not significantly exposed to interest rate risk in this area. As a result, any change in interest rates would not materially impact the Company's consolidated pretax earnings.

Foreign Exchange Rates. The operation of the Company's subsidiaries in international markets provides exposure to volatile movements in currency exchange rates. The currencies involved are the Canadian dollar, the Australian dollar and the British pound. International tax operations constituted approximately 1.0% of the Company's fiscal year 2002 consolidated pretax earnings, compared to 1.3% in fiscal 2001. As currency exchange rates change, translation of the financial results of International tax operations into U.S. dollars does not presently materially affect, and has not historically materially affected, the consolidated financial results of the Company, although such changes do affect the year-to-year comparability of the operating results of the international businesses.

The Company translates revenues and expenses related to its international operations at the average of exchange rates in effect during the period. The sensitivity analysis of fluctuation in foreign currency exchange rates compares the U.S. dollar variance in using the actual exchange rates and using rates that have been adversely adjusted by 10%. The Company estimates that a 10% change in foreign exchange rates by itself would impact reported pretax earnings from continuing operations by approximately $806,000. Such impact represents approximately 11.4% of the pretax earnings of International tax operations for fiscal year 2002 and approximately .11% of the Company's pretax earnings for such year. In fiscal 2001, a 10% change in exchange rates would have impacted fiscal 2001 pretax earnings by approximately $731,000 or 12.3% of International tax operations pretax earnings and .15% of the Company's pretax earnings.

Trading

The Company's trading portfolio is effected by changes in market rates/prices. The risk is the loss of earnings arising from adverse changes in the value of the trading portfolio. The Company's broker-dealer holds the trading portfolio at quoted market prices and such portfolio represents .7% of the Company's total assets. The market value of the Company's trading portfolio at April 30, 2002 was approximately $28.4 million. The impact of a 10% change in the market value of these investments would be approximately $2.8 million, or about .4% of consolidated pretax earnings. With respect to its fixed-income securities portfolio, the Company manages its market price risk exposure by limiting concentration risk, maintaining minimum credit quality and limiting inventory to anticipated retail demand and current market conditions.

Item 8. Financial Statements and Supplementary Data.

The information called for by this item and listed at Item 14(a) 1 is contained in the Company's annual report to security holders for the fiscal year ended April 30, 2002, and is hereby incorporated by reference.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

PART III

Item 10. Directors and Executive Officers of the Registrant.

The information called for by this item with respect to directors of the Company and with respect to compliance with Section 16(a) of the Securities Exchange Act is included under the captions "Election of Directors" and "Section 16(a) Beneficial Ownership Reporting Compliance," respectively, in the Company's definitive proxy statement filed pursuant to Regulation 14A not later than 120 days after April 30, 2002, and in Item 4a "Executive Officers of the Registrant" in this report, and is incorporated herein by reference.

Item 11. Executive Compensation.

The information called for by this item is contained in the Company's definitive proxy statement filed pursuant to Regulation 14A not later than 120 days after April 30, 2002, in the sections entitled "Directors' Meetings, Compensation and Committees" and "Compensation of Executive Officers," and is incorporated herein by reference, except that information contained in the section entitled "Compensation of Executive Officers" under the subtitles "Performance Graph" and "Compensation Committee Report on Executive Compensation" is not incorporated herein by reference and is not to be deemed "filed" as part of this filing.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information called for by this item is contained in the Company's definitive proxy statement filed pursuant to Regulation 14A not later than 120 days after April 30, 2002, in the section titled

"Election of Directors," in the section titled "Information Regarding Security Holders," and in the section entitled "ITEM 2 ON FORM OF PROXY Approvals of the 2003 Long-Term Executive Compensation Plan and an Amendment to the 1993 Long-Term Executive Compensation Plan," and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions.

None.

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K.

(a) 1. Financial Statements

The following consolidated financial statements of H&R Block, Inc., and subsidiaries are incorporated by reference from the Company's annual report to security holders for the fiscal year ended April 30, 2002:

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2. Financial Statement Schedules

Report of PricewaterhouseCoopers LLP, Certified Public Accountants on Financial Statement Schedule for H&R Block, Inc.

Schedule II — Valuation and Qualifying Accounts

Schedules not filed herewith are either not applicable, the information is not material or the information is set forth in the financial statements or notes thereto.

3. Exhibits

3.1 Restated Articles of Incorporation of H&R Block, Inc., as amended, filed as Exhibit 3.2 to the Company's quarterly report on Form 10-Q for the quarter ended October 31, 2001, file number 1-6089, are incorporated herein by reference.

3.2 Certificate of Amendment of Articles of Incorporation effective October 15, 2001, filed as Exhibit 3.1 to the Company's quarterly report on Form 10-Q for

	the quarter ended October 31, 2001, file number 1-6089, is incorporated herein by reference.
3.3	Amended and Restated Bylaws of H&R Block, Inc., as amended, filed as Exhibit 3.1 to the Company's quarterly report on Form 10-Q for the quarter ended October 31, 1999, file number 1-6089, are incorporated herein by reference.
4.1	Indenture dated as of October 20, 1997, among H&R Block, Inc., Block Financial Corporation and Bankers Trust Company, as Trustee, filed as Exhibit 4(a) to the Company's quarterly report on Form 10-Q for the quarter ended October 31, 1997, file number 1-6089, is incorporated herein by reference.
4.2	First Supplemental Indenture, dated as of April 18, 2000, among H&R Block, Inc., Block Financial Corporation, Bankers Trust Company and the Bank of New York, filed as Exhibit 4(a) to the Company's current report on Form 8-K dated April 13, 2000, file number 1-6089, is incorporated herein by reference.
4.3	Form of 6 3/4% Senior Note due 2004 of Block Financial Corporation, filed on October 23, 1997 as Exhibit 2.2 to the Company's current report on Form 8-K, file number 1-6089, is incorporated herein by reference.
4.4	Form of 8 1/2% Senior Note due 2007 of Block Financial Corporation, filed as Exhibit 4(b) to the Company's current report on Form 8-K dated April 13, 2000, file number 1-6089, is incorporated herein by reference.
4.5	Copy of Rights Agreement dated March 25, 1998, between H&R Block, Inc. and ChaseMellon Shareholder Services, L.L.C., filed on July 22, 1998 as Exhibit 1 to the Company's Registration Statement on Form 8-A, file number 1-6089, is incorporated herein by reference.
4.6	Form of Certificate of Designation, Preferences and Rights of Participating Preferred Stock of H&R Block, Inc., filed as Exhibit 4(e) to the Company's annual report on Form 10-K for the fiscal year ended April 30, 1995, file number 1-6089, is incorporated by reference.
4.7	Form of Certificate of Amendment of Certificate of Designation, Preferences and Rights of Participating Preferred Stock of H&R Block, Inc., filed as Exhibit 4(j) to the Company's annual report on Form 10-K for the fiscal year ended April 30, 1998, file number 1-6089, is incorporated by reference.
4.8	Form of Certificate of Designation, Preferences and Rights of Delayed Convertible Preferred Stock of H&R Block, Inc., filed as Exhibit 4(f) to the Company's annual report on Form 10-K for the fiscal year ended April 30, 1995, file number 1-6089, is incorporated by reference.
10.1	The Company's 1993 Long-Term Executive Compensation Plan, as amended August 1, 2001, filed as Exhibit 10.1 to the Company's quarterly report on Form

	10-Q for the quarter ended October 31, 2001, file number 1-6089, is incorporated herein by reference.
10.2	The H&R Block Deferred Compensation Plan for Directors, as Amended and Restated effective July 1, 2002.
10.3	The H&R Block Deferred Compensation Plan for Executives, as Amended and Restated July 1, 2002.
10.4	The H&R Block Short-Term Incentive Plan, filed as Exhibit 10.1 to the Company's quarterly report on Form 10-Q for the quarter ended October 31, 2000, file number 1-6089, is incorporated herein by reference.
10.5	The Company's 1989 Stock Option Plan for Outside Directors, as amended September 12, 2001, filed as Exhibit 10.4 to the Company's quarterly report on Form 10-Q for the quarter ended October 31, 2001, file number 1-6089, is incorporated herein by reference.
10.6	The H&R Block Stock Plan for Non-Employee Directors, as amended August 1, 2001, filed as Exhibit 10.3 to the Company's quarterly report on Form 10-Q for the quarter ended October 31, 2001, file number 1-6089, is incorporated herein by reference.
10.7	The H&R Block, Inc. 2000 Employee Stock Purchase Plan, as amended August 1, 2001, filed as Exhibit 10.2 to the Company's quarterly report on Form 10-Q for the quarter ended October 31, 2001, file number 1-6089, is incorporated herein by reference.
10.8	The H&R Block, Inc. Executive Survivor Plan (as Amended and Restated) filed as Exhibit 10.4 to the Company's quarterly report on Form 10-Q for the quarter ended October 31, 2000, file number 1-6089, is incorporated herein by reference.
10.9	First Amendment to the H&R Block, Inc. Executive Survivor Plan (as Amended and Restated)
10.10	Employment Agreement dated October 11, 1996, between the Company and Frank L. Salizzoni, filed as Exhibit 10(b) to the Company's quarterly report on Form 10-Q for the quarter ended October 31, 1996, file number 1-6089, is incorporated herein by reference.
10.11	Employment Agreement dated July 16, 1998, between the Company and Mark A. Ernst, filed as Exhibit 10(a) to the Company's quarterly report on Form 10-Q for the quarter ended July 31, 1998, file number 1-6089, is incorporated herein by reference.
10.12	Amendment to Employment Agreement dated June 30, 2000, between HRB Management, Inc. and Mark A. Ernst, filed as Exhibit 10.1 to the Company's quarterly report on Form 10-Q for the quarter ended July 31, 2000, file number 1-6089, is incorporated herein by reference.

10.13	Employment Agreement dated as of November 1, 2001, between H&R Block Services, Inc, and Thomas L. Zimmerman, filed as Exhibit 10.6 to the Company's quarterly report on Form 10-Q for the quarter ended January 31, 2002, file number 1-6089, is incorporated herein by reference.
10.14	Employment Agreement dated September 7, 1999, between HRB Management, Inc. and Jeffery W. Yabuki, filed as Exhibit 10.4 to the Company's quarterly report on Form 10-Q for the quarter ended January 31, 2000, file number 1-6089, is incorporated herein by reference.
10.15	Employment Agreement dated January 26, 2000, between HRB Management, Inc. and Frank J. Cotroneo, filed as Exhibit 10.5 to the Company's quarterly report on Form 10-Q for the quarter ended January 31, 2000, file number 1-6089, is incorporated herein by reference.
10.16	Employment Agreement dated as of October 8, 2001, between HRB Management, Inc. and Jeffrey Brandmaier, filed as Exhibit 10.6 to the Company's quarterly report on Form 10-Q for the quarter ended October 31, 2001, file number 1-6089, is incorporated herein by reference.
10.17	Employment Agreement between HRB Management, Inc. and David F. Byers, fully executed as of February 1, 2002, filed as Exhibit 10.1 to the Company's quarterly report on Form 10-Q for the quarter ended January 31, 2002, file number 1-6089, is incorporated herein by reference.
10.18	Employment Agreement between Option One Mortgage Corporation and Robert E. Dubrish, executed on February 9, 2002, filed as Exhibit 10.2 to the Company's quarterly report on Form 10-Q for the quarter ended January 31, 2002, file number 1-6089, is incorporated herein by reference.
10.19	Employment Agreement dated as of November 5, 2001, between H&R Block Financial Advisors, Inc. and Brian L. Nygaard, filed as Exhibit 10.4 to the Company's quarterly report on Form 10-Q for the quarter ended January 31, 2002, file number 1-6089, is incorporated herein by reference.
10.20	Employment Agreement dated as of January 28, 2002, between HRB Management, Inc. and Stephanie R. Otto, filed as Exhibit 10.5 to the Company's quarterly report on Form 10-Q for the quarter ended January 31, 2002, file number 1-6089, is incorporated herein by reference.
10.21	Employment Agreement dated as of September 12, 2001 between HRB Management, Inc. and James H. Ingraham, filed as Exhibit 10.3 to the Company's quarterly report on Form 10-Q for the quarter ended January 31, 2002, file number 1-6089, is incorporated herein by reference.
10.22	Senior Managing Director Agreement dated August 2, 1999, between RSM McGladrey, Inc. and Thomas G. Rotherham, filed as Exhibit 10.23 to the Company's annual report on Form 10-K for the fiscal year ended April 30, 2001, file number 1-6089, is incorporated herein by reference.

12	Computation of Ratio of Earnings to Fixed Charges for the five years ended April 30, 2002.
13	That portion of the annual report to security holders for the fiscal year ended April 30, 2002 which is expressly incorporated by reference in this filing. Portions of such annual report to security holders not expressly incorporated by this reference in this filing are not deemed “filed” with the Commission.
21	Subsidiaries of the Company.
23	Consent of PricewaterhouseCoopers LLP, Certified Public Accountants.
(b)	Reports on Form 8-K. The Company did not file any reports on Form 8-K during the fourth quarter of the year ended April 30, 2002.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

June 12, 2002 By /s/ Mark A. Ernst

Mark A. Ernst
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

Signature	Title
/s/ Mark A. Ernst Mark A. Ernst	President, Chief Executive Officer and Director (principal executive officer)
/s/ G. Kenneth Baum G. Kenneth Baum	Director
/s/ Thomas M. Bloch Thomas M. Bloch	Director
/s/ Donna R. Ecton Donna R. Ecton	Director
/s/ Henry F. Frigon Henry F. Frigon	Director
Roger W. Hale	Director
/s/ Frank L. Salizzoni Frank L. Salizzoni	Director
/s/ Tom D. Seip Tom D. Seip	Director
/s/ Louis W. Smith Louis W. Smith	Director
/s/ Rayford Wilkins, Jr. Rayford Wilkins, Jr.	Director

(Signed as to each on June 12, 2002)

/s/ Frank J. Cotroneo Frank J. Cotroneo	Senior Vice President and Chief Financial Officer (principal financial officer)
/s/ Cheryl L. Givens Cheryl L. Givens	Vice President and Corporate Controller (principal accounting officer)

(Signed as to each on June 12, 2002)

Report of Independent Accountants on
Financial Statement Schedule

To the Board of Directors of
H&R Block, Inc.:

Our audits of the consolidated financial statements referred to in our report dated June 11, 2002 appearing in the 2002 Annual Report to Shareholders of H&R Block, Inc. (which report and consolidated financial statements are incorporated by reference in this Annual Report on Form 10-K) also included an audit of the financial statement schedule listed in Item 14(a)(2) of this Form 10-K. In our opinion, this financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

PricewaterhouseCoopers LLP
Kansas City, Missouri
June 11, 2002

H&R BLOCK, INC.

SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS

YEARS ENDED APRIL 30, 2002, 2001 AND 2000

Description	Balance at Beginning of Period	Additions: Charged to Costs and Expenses	Additions: Charged to Other	Deductions	Balance at End of Period
Allowance for Doubtful Accounts - deducted from accounts receivable in the balance sheet					
2002	$ 48,817,000	$ 76,804,000	—	$ 59,779,000	$ 65,842,000
2001	$ 50,361,000	$ 84,422,000	—	$ 85,966,000	$ 48,817,000
2000	$ 61,872,000	$ 51,719,000	—	$ 63,230,000	$ 50,361,000

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H&R BLOCK

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FOR DIRECTORS

Amended and Restated

Effective July 1, 2002

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H&R BLOCK
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FOR DIRECTORS

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H&R BLOCK
DEFERRED COMPENSATION PLAN
FOR DIRECTORS

H&R Block, Inc. (the “Company”) hereby amends and restates, effective July 1, 2002, the nonqualified deferred compensation plan for the benefit of specified Directors of the Company and such other entities as may be designated by the Company from time to time known as the H&R Block Deferred Compensation Plan for Directors (the “Plan”).

ARTICLE 1 DEFERRED COMPENSATION ACCOUNT

Section 1.1. Establishment of Account. The Company shall establish an Account for each Participant which shall be utilized solely as a device to measure and determine the amount of deferred Director’s Fees to be paid under the Plan.

Section 1.2. Property of Company and Participating Affiliates. Any amounts so set aside for benefits payable under the Plan are the property of the Company and its Participating Affiliates, except, and to the extent, of any assignment of such assets to an irrevocable trust.

ARTICLE 2 DEFINITIONS, GENDER, AND NUMBER

Section 2.1. Definitions. Whenever used in the Plan, the following words and phrases shall have the meanings set forth below unless the context plainly requires a different meaning, and when a defined meaning is intended, the term is capitalized.

2.1.1. “Account” means the device used to measure and determine the amount of deferred Director’s Fees to be paid to a Participant or Beneficiary under the Plan, and may refer to the separate Accounts that represent amounts deferred by a Participant under separate Permissible Deferral elections.

2.1.2. “Affiliates” or “Affiliate” means a group of entities, including the Company, which constitutes a controlled group of corporations (as defined in section 414(b) of the Code), a group of trades or businesses (whether or not incorporated) under common control (as defined in section 414(c) of the Code), and members of an affiliated service group (within the meaning of section 414(m) of the Code).

2.1.3. “Age” of a Participant means the number of whole years that have elapsed since the date of the Participant’s birth.

2.1.4. “Assumed Interest Rate” has the meaning specified in Section 6.2.3.

2.1.5. “Beneficiary” or “Beneficiaries” means the persons or trusts designated by a Participant in writing pursuant to Section 6.3.4 of the Plan as being entitled to receive any benefit payable under the Plan by reason of the death of a Participant, or, in the absence of such designation, the persons specified in Section 6.3.5 of the Plan.

2.1.6. “Board” means the Board of Directors of the Company as constituted at the relevant time.

2.1.7. “Closing Price” means the closing price of the Company’s Common Stock on the New York Stock Exchange as of the applicable date; provided, however, that if no closing price is available for such date, “Closing Price” means the closing price of the Company’s Common Stock as of the immediately preceding date for which a price is available.

2.1.8. “Code” means the Internal Revenue Code of 1986, as amended from time to time and any successor statute. References to a Code section shall be deemed to be to that section or to any successor to that section.

2.1.9. “Committee” means the Compensation Committee of the Board.

2.1.10. “Common Stock” means the common stock of the Company.

2.1.11. “Company” means H&R Block, Inc.

2.1.12. “Deferred Compensation Unit” means a unit equal in value to one share of Common Stock and posted to a Participant’s Account for the purpose of measuring the benefits payable under the Plan.

2.1.13. “Director” or “Directors” means a Non-Employee serving as a member on the Board of Directors of a Participating Affiliate.

2.1.14. “Director’s Fees” of a Director for any Plan Year means that individual’s (a) quarterly retainer, (b) Board meeting fees, (c) committee meeting fees, and (d) any other retainer or fees for that Plan Year.

2.1.15. “Enrollment Period” for a Plan Year commencing January 1 means the immediately preceding period of October 1 through December 15, inclusive.

2.1.16. “Initial Payment Period” has the meaning specified in Section 6.2.2.

2.1.17. “Non-Employee” means any person who is not classified as a common-law employee of an Affiliate by such Affiliate.

2.1.18. “Overall Payment Period” has the meaning specified in Section 6.2.2.

2.1.19. “Participant” means a Non-Employee Director who is eligible to participate in the Plan and has elected to participate in the Plan.

2.1.20. “Participating Affiliate” or “Participating Affiliates” means the Company and the following indirect subsidiaries of the Company, each of which is an Affiliate: HRB Management, Inc., H&R Block Services, Inc., Block Financial Corporation, HRB Business Services, Inc., and the majority-owned U.S. subsidiaries of such indirect subsidiaries; and such other Affiliates as may be designated as such by the Committee from time to time.

2.1.21. “Permissible Deferral” means a deferral in a Plan Year of one hundred percent (100%) of any one or more of the components of Director’s Fees.

Director’s Fees deferrals shall be made in single sum deferrals at the time that the Director’s Fees would otherwise be paid to the Director.

2.1.22. “Plan” means the “H&R Block Deferred Compensation Plan for Directors” as set forth herein and as amended or restated from time to time.

2.1.23. “Plan Year” means the calendar year for Permissible Deferrals of Participants elected to commence on January 1, 1998, or later.

2.1.24. “Plan Year Payment Period” has the meaning specified in Section 6.2.2.

2.1.25. “Remainder Payment Period” has the meaning specified in Section 6.2.2.

2.1.26. “Standard Form of Benefit” as to any Participant means semimonthly payments for a ten (10) year period.

2.1.27. “Trust” means the H&R Block, Inc. Deferred Compensation Trust Agreement.

Section 2.2. Gender and Number. Except as otherwise indicated by context, masculine terminology used herein also includes the feminine and neuter, and terms used in the singular may also include the plural.

ARTICLE 3 PARTICIPATION

Section 3.1. Who May Participate. Participation in the Plan is limited to Directors.

Section 3.2. Time and Conditions of Participation. An eligible Director shall become a Participant only upon (a) the individual’s completion of a Permissible Deferral election for the succeeding Plan Year during an Enrollment Period, in accordance with a form established by the Company from time to time, and (b) compliance with such terms and conditions as the Committee may from time to time establish for the implementation of the Plan, including, but not limited to, any condition the Committee may deem necessary or appropriate for the Company to meet its obligations under the Plan.

Section 3.3. Termination of Participation. Once a Director has become a Participant in the Plan, participation shall continue until the first to occur of (a) payment in full of all benefits to which the Participant or Beneficiary is entitled under the Plan, or (b) the occurrence of an event specified in Section 3.4 which results in loss of benefits. Except as otherwise specified in the Plan, the Company may not terminate an individual’s participation in the Plan.

Section 3.4. Missing Persons. If the Company is unable to locate the Participant or his or her Beneficiary for purposes of making a distribution, the amount of a Participant’s benefits

under this Plan that would otherwise be considered as non-forfeitable shall be forfeited effective four (4) years after (a) the last date a payment of said benefit was made, if at least one such payment was made, or (b) the first date a payment of said benefit was directed to be made by the Company pursuant to the terms of the Plan, if no payments had been made. If such person is located after the date of such forfeiture, the benefits for such Participant or Beneficiary shall not be reinstated hereunder.

Section 3.5. Relationship to Other Plans. Participation in the Plan shall not preclude participation of the Participant in any other benefit plan or program sponsored by an Affiliate for which such Participant would otherwise be eligible.

ARTICLE 4 ENTRIES TO THE ACCOUNT

Section 4.1. Deferrals. If the Participant elects the fixed and/or variable crediting rate option for measuring the performance of the Account under Section 4.2, the Company shall post to the Account of such Participant on the date the Director's Fees would otherwise be paid the amount of Director's Fees to be deferred as designated by the Participant's Permissible Deferral election in effect for each Plan Year. If the Participant elects the Common Stock crediting rate option for measuring the performance of the Account under Section 4.2, (a) the Company shall post to the Account of such Participant a number of Deferred Compensation Units equivalent to the amount of Director's Fees to be deferred as designated by the Participant's Permissible Deferral election in effect for than Plan Year; (b) deferrals of Director's Fees (and the corresponding number of Deferred Compensation Units) shall be posted as of the date the Director's Fees would otherwise be paid the amount of Director's Fees to be deferred; and (c) the number of Deferred Compensation Units posted for each calendar month in which Director's Fees would otherwise be paid the amount of Director's Fees to be deferred shall be calculated by dividing: (i) the dollar amount deferred during that month; by (ii) the Closing Price on the first business day of that month. A Participant may elect to allocate no more than twenty-five percent (25%) of his or her deferrals to the Common Stock crediting rate. In the event a Participant has previously elected to allocate more than twenty-five percent (25%) of his or her deferrals to the Common Stock crediting rate and such election has not been changed on or before June 30, 2002, effective July 1, 2002, the Participant's allocation election will automatically be changed to reduce such allocation of deferrals to the Common Stock crediting rate to twenty-five percent (25%) and the amount previously allocated to the Common Stock crediting rate that exceeds twenty-five percent (25%) will automatically be allocated to the fixed rate crediting option.

Section 4.2. Crediting Rate. Gains or losses shall be posted to the Account on a daily basis in accordance with the Participant's election of investment options which will be a reference for measuring the performance of the Account. The Company intends to measure the performance of the Account in accordance with the Participant's election but reserves the right to do otherwise. Statements of Account balances shall be provided no less frequently than on a quarterly basis. The Participant shall elect from among the following investment options: (i) a fixed rate as described in 4.2.1, (ii) a variable rate as described in 4.2.2, or (iii) a Common Stock crediting rate as described in 4.2.3. A Participant may elect to allocate no more than twenty-five percent (25%) of his or her deferrals or Account to the Common Stock crediting rate. On a monthly basis, Participants may elect to reallocate all or any portion of their Account balances among the available investment options, including those funds selected by the Company for the variable rate investment option, provided said reallocations are in whole number increments and further provided that said reallocations will not result in an allocation of more than

twenty-five percent (25%) of their Account balances to the Common Stock crediting rate. If as of July 1, 2002, a Participant's Account has an allocation of greater than twenty-five percent (25%) of the Account to the Common Stock crediting rate, the Participant will be given the opportunity to reallocate that portion of the Account allocated to the Common Stock crediting rate that exceeds twenty-five percent (25%) of the total Account balance to another crediting rate option as of July 1, 2002. If the Participant does not elect to reallocate such excess, such excess will automatically be reallocated to the fixed rate crediting option as of July 1, 2002. If as of January 1, 2003, or any January 1 thereafter, a Participant's Account has an allocation of greater than twenty-five percent (25%) of the Account to the Common Stock crediting rate, the portion of the Account allocated to the Common Stock crediting rate that exceeds twenty-five percent (25%) of the total Account balance will automatically be reallocated to the fixed rate crediting option as of the January 1 of the year in which such reallocation was made.

Subject to the percentage limits in the preceding paragraph, Participants may change their crediting rate elections once each calendar month by giving the Company notice of such change in accordance with a method and/or procedures approved by the Company for that purpose. Upon receipt of such notice, the Committee will effect the change on the first day of the calendar month immediately following the month in which such notice was received. Such change will govern the Participant's Account balance and future deferrals occurring on or after the effective date of such change.

Section 4.2.1. Fixed Rate. If a Participant elects a fixed rate, the interest will be compounded on a daily basis and posted to the Participant's Account daily at an effective annual yield equal to the rate of ten-year United States Treasury notes in effect at the time as determined below. The rate will be determined four times each Plan Year and for each Plan Year quarter will be the rate in effect as of the last day of the calendar quarter immediately prior to the calendar quarter to which it applies, as published in the Wall Street Journal or as determined by the Chief Financial Officer of the Company.

Through July 1, 2002, for Permissible Deferrals elected under the Plan and commencing prior to January 1, 1995, the effective annual yield for the fixed rate crediting option was equal to one hundred twenty percent (120%) of the ten-year rolling average rate of ten-year United States Treasury notes. The ten-year rolling average rate was the rate in effect as of September 30 of the Plan Year immediately prior to the Plan Year to which it applied, as published in the Wall Street Journal or as determined by the Chief Financial Officer of the Company. Effective July 1, 2002, such effective annual yield for the fixed rate crediting option is eliminated and replaced with an effective annual yield equal to the rate of ten-year United States Treasury notes, as determined in accordance with the first paragraph of this Section 4.2.1.

Section 4.2.2. Variable Rate. If a Participant elects a variable rate, the Participant's Account will be credited or debited as if the Account balance were invested in one or more funds selected by the Company in the proportions elected by the Participant. 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 whole number increments of the Account.

Section 4.2.3. Common Stock Crediting Rate. If a Participant elects the Common Stock crediting rate, the Participant's Account will be valued as if his or her Account were invested in shares of Common Stock equal to the number of Deferred Compensation Units posted to his or her Account. The value of a Participant's Account will vary with the value of the Company's Common Stock. The Participant's Account will be credited, as of the applicable dividend payment date, with additional Deferred Compensation Units equal in value to any dividends declared on the Company's Common Stock based on the number of Deferred Compensation Units posted to the Participant's Account as of the record date with respect to the declaration of such dividend. As of any date of valuation, the value of a Participant's Account will be equal to the value (at the Closing Price on such date) of the number of shares of Common Stock represented by the Deferred Compensation Units credited to the Account as of that date.

ARTICLE 5 VESTING

Participant deferrals are fully vested immediately.

ARTICLE 6 DISTRIBUTION OF BENEFITS

Section 6.1. Time of Payment. Payments of benefits shall be made by the Company upon the earliest to occur of the following:

(a) the termination, voluntary or involuntary, of the Participant's membership on all Boards of Directors of all Participating Affiliates; or

(b) the Participant's death.

Except as otherwise provided, benefit payments shall commence in the first month of the first calendar quarter that begins at least forty-five days after the occurrence of the event described in the preceding sentence which results in benefit distribution.

Section 6.2. Form of Benefits for Distributions Made On Account of Termination of Membership on All Boards of Directors.

Section 6.2.1. For distributions made on account of the termination, voluntary or involuntary, of the Participant's membership on all Boards of Directors of all Participating Affiliates, payments from the Account shall be made in accordance with the Standard Form of Benefit. The Participant in the Plan Year prior to payment of benefits may, however, petition the Committee for, and the Committee may approve at such time, one of the following forms of benefit:

(a) semimonthly payments over a five (5) year period; or

(b) a single distribution paid within forty-five (45) days after the termination of the Participant's membership on all Boards of Directors of all Participating Affiliates.

Section 6.2.2. Except for a single distribution, benefit payments shall be in the form of semimonthly cash installments paid during the applicable payment period (the "Overall Payment Period"). The amount of each installment payment shall be level during the portion of the Overall Payment Period ending on December 31 of the Plan Year in which benefit payments commence (the "Initial Payment Period"), during each complete Plan Year of the Overall Payment Period thereafter (a "Plan Year Payment Period"), and during any remaining period of the Overall Payment Period following the last Plan Year Payment Period (the "Remainder Payment Period"), but will vary from one such portion of the Overall Payment Period to the next.

Section 6.2.3. The amount of each level payment for the Initial Payment Period, if any, shall be calculated using the balance in the Account as of the beginning of the Initial Payment Period and amortizing such balance over the remaining Overall Payment Period (a) using an assumed interest rate equal to the rate of one-year United States Treasury notes for each Participant receiving payments of benefits prior to December 8, 1999, said rate to be determined once each Plan Year and to be the rate in effect as of the September 30 immediately preceding the payment period to which it applies, as published in the Wall Street Journal or as determined by the Chief Financial Officer of the Company (the "Assumed Interest Rate"), and (b) using an assumed interest rate of zero percent (0%) for all other Participants. The amount of each level payment for each Plan Year Payment Period shall be calculated by taking the balance in the Account as of November 30 of the Plan Year immediately prior to such Plan Year Payment Period, subtracting the benefit payments made during the portion of such preceding Plan Year following November 30, and amortizing the difference over the remaining Overall Payment Period (x) using the Assumed Interest Rate for each participant receiving payments of benefits prior to December 8, 1999, and (y) using an assumed interest rate of zero percent (0%) for all other Participants. The amount of each level payment for the Remainder Payment Period, if any, shall be calculated by taking the balance in the Account as of November 30 of the Plan Year immediately prior to the Remainder Payment Period, subtracting the benefit payments made during the portion of such preceding Plan Year following November 30, and amortizing the difference over the Remainder Payment Period using an assumed interest rate of zero percent (0%) per annum. If the actual crediting rate for the Remainder Payment Period is more than zero percent, the additional gain resulting from the difference in crediting rates shall be paid to the Participant in a single payment within six months after the last day of the Remainder Payment Period.

Section 6.2.4. The Account shall be credited during the Overall Payment Period with gains and losses as provided in Section 4.2.

Section 6.2.5. Notwithstanding anything in this Plan to the contrary, the Committee may, in its sole discretion, (i) increase or reduce any assumed interest rate set forth in this Section 6.2 and any such assumed interest rate, as so adjusted, shall be effective for calculating level semimonthly installments for Participants whose benefit payments commence after the date of such adjustment, and (ii) change the date set forth in Section 6.2.3 on which the balance in the Participant's Account is to be determined for purposes of

calculating the amount of each level payment for each Plan Year Payment Period and each Remainder Payment Period, and any such revised date shall be effective for calculating level semimonthly installments for the Plan Year Payment Period or the Remainder Payment Period beginning on or after the effective date of such revision.

Section 6.3. Death Benefits.

6.3.1. Death After Benefit Commencement. In the event a Participant dies after commencement of benefits, the remaining benefit payments, if any, shall be paid to the Participant's Beneficiary in the same manner such benefits were being paid to the Participant at the time of death and would have been paid to the Participant had the Participant survived. A Beneficiary may petition the Committee for an alternative method of payment. The Account shall be credited from the Participant's date of death through the end of the Overall Payment Period at an interest rate equal to the rate of one-year United States Treasury notes, said rate to be determined once each Plan Year and to be the rate in effect as of September 30 of the Plan Year immediately prior to the Plan Year to which it applies, as published in the Wall Street Journal or as determined by the Chief Financial Officer of the Company.

6.3.2. 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 in the Wall Street Journal 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.

6.3.3. Marital Deduction. Any benefits which become payable under this Article 6 to the surviving spouse of a Participant shall be paid in a manner which will qualify such benefits for a marital deduction in the estate of a deceased Participant under the terms of Section 2056 of the Code, and unless specifically directed by a Participant to the contrary pursuant to an effective beneficiary designation, any portion of a Participant's death benefit payable to a surviving spouse which remains unpaid at the death of such spouse shall be paid to the spouse's estate.

6.3.4. Designation by Participant. Each Participant has the right to designate primary and contingent Beneficiaries for death benefits payable under the Plan. Such Beneficiaries may be individuals or trusts for the benefit of individuals. A beneficiary designation by a Participant shall be in writing on a form acceptable to the Committee and shall only be effective upon delivery to the Company. 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. A beneficiary designation may be revoked by a Participant at any time by delivering to the Company either written notice of revocation or a new beneficiary designation form. The beneficiary designation form last delivered to the Company prior to the death of a Participant shall control.

6.3.5. Failure to Designate Beneficiary. In the event there is no beneficiary designation on file with the Company, or all Beneficiaries designated by a Participant have predeceased the Participant, the benefits payable by reason of the death of the Participant shall be paid to the Participant's spouse, if living; if the Participant does not leave a surviving spouse, to the Participant's issue by right of representation; or, if there are no such issue then living, to the Participant's estate. In the event there are benefits remaining unpaid at the death of a sole Beneficiary and no successor Beneficiary has been designated, either by the Participant or the Participant's spouse pursuant to 6.4.3, the remaining balance of such benefit shall be paid to the deceased Beneficiary's estate; or, if the deceased Beneficiary is one of multiple concurrent Beneficiaries, such remaining benefits shall be paid proportionally to the surviving Beneficiaries.

Section 6.4. Claims Procedure. The Committee shall notify a Participant in writing within ninety (90) days of the Participant's written application for benefits of his or her eligibility or non-eligibility for benefits under the Plan. If the Committee determines that a Participant is not eligible for benefits or full benefits, the notice shall set forth (a) the specific reasons for such denial, (b) a specific reference to the provision of the Plan on which the denial is based, (c) a description of any additional information or material necessary for the claimant to perfect his or her claim, and a description of why it is needed, and (d) an explanation of the Plan's claims review procedure and other appropriate information as to the steps to be taken if the Participant wishes to have his or her claim reviewed. If the Committee determines that there are special circumstances requiring additional time to make a decision, the Committee shall notify the Participant of the special circumstances and the date by which a decision is expected to be made, and may extend the time for up to an additional 90-day period. If a Participant is determined by the Committee to be not eligible for benefits, or if the Participant believes that he or she is entitled to greater or different benefits, he or she shall have the opportunity to have his or her claim reviewed by the Committee by filing a petition for review with the Committee within sixty (60) days after receipt by him or her of the notice issued by the Committee. Said petition shall state the specific reasons the Participant believes he or she is entitled to benefits or greater or different benefits. Within sixty (60) days after receipt by the Committee of said petition, the Committee shall afford the Participant (and his or her counsel, if any) an opportunity to present his or her position t the Committee orally or in writing, and said Participant (or his or her counsel) shall have the right to review the pertinent documents, and the Committee shall notify the Participant of its decision in writing within said sixty (60) day

period, stating specifically the basis of said decision written in a manner calculated to be under-stood by the Participant and the specific provisions of the Plan on which the decision is based. If, because of the need for a hearing, the sixty (60) day period is not sufficient, the decision may be deferred for up to another sixty (60) day period at the election of the Committee, but notice of this deferral shall be given to the Participant.

Section 6.5. Alternate Forms of Benefit Distribution. Participants, no later than in the Plan Year prior to the Plan Year in which payment of benefits commence may petition the Committee to request methods of benefit distribution other than those provided pursuant to this Article 6.

Section 6.6. Distributions on Plan Termination. Notwithstanding anything in this Article 6 to the contrary, if the Plan is terminated, distributions shall be made in accordance with Section 9.2.

ARTICLE 7 FUNDING

Section 7.1. Source of Benefits. All benefits under the Plan shall be paid when due by the Company out of its assets or from an irrevocable trust established by the Company for that purpose. The Company may, but shall have no obligations to, make such advance provision for the payment of such benefit as the Board may from time to time consider appropriate.

Section 7.2. No Claim on Specific Assets. No Participant shall be deemed to have, by virtue of being a Participant in the, Plan, any claim on any specific assets of the Company such that the Participant would be subject to income taxation on his or her benefits under the Plan prior to distribution and the rights of Participants and Beneficiaries to benefits to which they are otherwise entitled under the Plan shall be those of an unsecured general creditor of the Company.

ARTICLE 8 ADMINISTRATION AND FINANCES

Section 8.1. Administration. The Plan shall be administered by the Committee. The Company shall bear all administrative costs of the Plan other than those specifically charged to a Participant or Beneficiary.

Section 8.2. Powers of Committee. In addition to the other powers granted under the Plan, the Committee shall have all powers necessary to administer the Plan, including, without limitation, powers:

(a) to interpret the provisions of the Plan;

(b) to establish and revise the method of accounting for the Plan and to maintain the Accounts; and

(c) to establish rules for the administration of the Plan and to prescribe any forms required to administer the Plan.

Not in limitation, but in amplification of the foregoing and of the authority conferred upon the Committee in Section 8.1, the Company specifically intends that the Committee have the greatest permissible discretion to construe the terms of the Plan and to determine all questions

concerning eligibility, participation and benefits. Any such decision made by the Committee is intended to be subject to the most deferential standard of judicial review. Such standard of review is not to be effected by any real or alleged conflict of interest on the part of the Company or any member of the Committee.

Section 8.3. Actions of the Committee. Except as modified by the Company, all determinations, interpretations, rules, and decisions of the Committee shall be conclusive and binding upon all persons having or claiming to have any interest or right under the Plan.

Section 8.4. Delegation. The Committee, or any officer designated by the Committee, shall have the power to delegate specific duties and responsibilities to officers or other employees of the Company or other individuals or entities. Any delegation may be rescinded by the Committee at any time. Each person or entity to whom a duty or responsibility has been delegated shall be responsible for the exercise of such duty or responsibility and shall not be responsible for any act or failure to act of any other person or entity.

Section 8.5. Reports and Records. The Committee and those to whom the Committee has delegated duties under the Plan shall keep records of all their proceedings and actions and shall maintain books of account, records, and other data as shall be necessary for the proper administration of the Plan and for compliance with applicable law.

ARTICLE 9 AMENDMENTS AND TERMINATION

Section 9.1. Amendments. The Company, by action of the Board, may amend the Plan, in whole or in part, at any time and from time to time. Any such amendment shall be filed with the Plan documents. No amendment, however, may be effective to eliminate or reduce the benefits of any retired Participant or the Beneficiary of any deceased Participant then eligible for benefits or the benefits, if any, in any active Participant's Account immediately before the effective date of such amendment, and each such Account will be credited to the date of such amendment in accordance with Section 4.2. Notwithstanding anything in this Section 9.1 to the contrary, the Committee may, in its discretion, amend the Plan to reduce the rates set forth in Section 4.2 for crediting the Accounts of active Participants effective for crediting from the date of any such amendment. Notwithstanding anything in this Section 9.1 to the contrary, the Committee may, in its discretion, (i) amend the Plan to increase or reduce any assumed interest rate set forth in Section 6.2, in accordance with the provisions of Section 6.2.5, or (ii) amend the Plan to change the date set forth in Section 6.2.3 on which the balance in the Participant's Account is to be determined for purposes of calculating the amount of each level payment for each Plan Year Payment Period and each Remainder Payment Period, in accordance with provisions of Section 6.2.5.

Section 9.2. Termination. The Company expects the Plan to be permanent, but necessarily must, and hereby does, reserve the right to terminate the Plan at any time by written action of the Board. In all events, the Plan will be terminated if the existence of a trust causes a federal court to hold that the Plan is "funded" for ERISA purposes, as defined in Section 2.02-4 of the Trust, and appeals from that holding are no longer timely or have been exhausted, and the trust is therefore terminated with respect to the Plan. Upon termination of the Plan, all deferrals will cease and no future deferrals will be made. Termination of the Plan shall not operate to eliminate or reduce benefits of any retired Participant or the Beneficiary of any deceased Participant then eligible for benefits or the benefits, if any, in any active Participant's Account immediately before the effective date of such termination, and each such

Account will be credited, to the date of distribution of all benefits in such Account, in accordance with Section 4.2, as it may be amended from time to time pursuant to Section 9.1.

If the Plan shall at any time be terminated, payments from the Accounts of all Participants and Beneficiaries shall be made as soon as administratively convenient in the form of monthly payments over a five (5) year period; however, the Committee in its sole discretion may pay the benefits in a lump sum. Notwithstanding the preceding sentence, if the termination occurs because the Plan is held to be "funded" as described in the first paragraph of this Section 9.2, the distribution will be paid in a lump sum not later than ninety (90) days after such termination.

ARTICLE 10 MISCELLANEOUS

Section 10.1 No Guarantee of Membership. Neither the adoption and maintenance of the Plan nor the execution by the Company of a Permissible Deferral agreement with any Director shall be deemed to be a contract between the Company and any Participant to retain his or her position as a Director.

Section 10.2. Release. Any payment of benefits to or for the benefit of a Participant or a Participant's Beneficiaries that is made in good faith by the Company in accordance with the Company's interpretation of its obligations hereunder, shall be in full satisfaction of all claims against the Company for benefits under this Plan to the extent of such payment.

Section 10.3. Notices. Any notice permitted or required under the Plan shall be in writing and shall be hand delivered or sent, postage prepaid, certified or registered mail with return receipt requested, to the principal office of the Company, if to the Company, or to the address last shown on the records of the Company, if to a Participant or Beneficiary. Any such notice shall be effective as of the date of hand delivery or mailing.

Section 10.4. Non-Alienation. No benefit payable at any time under this Plan shall be subject in any manner to alienation, sale, transfer, assignment, pledge, levy, attachment, or encumbrance of any kind.

Section 10.5. Tax Liability. The Company may direct the trustee of the Trust to withhold from any payment of benefits under the Plan such amounts as the Company determines are reasonably necessary to pay any taxes (and interest thereon) required to be withheld or for which the trustee of the Trust may become liable under applicable law. The Company may also direct the trustee of the Trust to forward to the appropriate taxing authority any amounts required to be paid by the Company or the Trust under the preceding sentence. Any amounts withheld pursuant to this Section 10.5 in excess of the amount of taxes due (and interest thereon) shall be paid to the Participant or Beneficiary upon final determination, as determined by the Company, of such amount. No interest shall be payable by the Company to any Participant or Beneficiary by reason of any amounts withheld pursuant to this Section 10.5.

Section 10.6. Captions. Article and section headings and captions are provided for purposes of reference and convenience only and shall not be relied upon in any way to construe, define, modify, limit, or extend the scope of any provision of the Plan.

Section 10.7. Applicable Law. The Plan and all rights hereunder shall be governed by and construed according to the laws of the State of Missouri, except to the extent such laws are preempted by the laws of the United States of America.

Dated: June 10, 2002

H&R BLOCK, INC.

/s/ Mark A. Ernst

Mark A. Ernst
President and Chief Executive Officer

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Exhibit 10.3

H&R BLOCK
DEFERRED COMPENSATION PLAN
FOR EXECUTIVES,
AS AMENDED AND RESTATED

July 1, 2002

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DEFERRED COMPENSATION PLAN
FOR EXECUTIVES,
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H&R BLOCK
DEFERRED COMPENSATION PLAN
FOR EXECUTIVES,
AS AMENDED AND RESTATED

H&R Block, Inc. (the "Company") established, effective August 1, 1987, a nonqualified deferred compensation plan for the benefit of specified Executives of the Company, and specified affiliates of the Company. This plan became known as the H&R Block Deferred Compensation Plan for Executives (the "DCP"). The Company amended the DCP by Amendment No. 1 effective December 15, 1990; by Amendment No. 2 effective January 1, 1990; by Amendment No. 3 effective September 1, 1991; by Amendment No. 4 effective January 1, 1994; by Amendment No. 5 effective May 1, 1994; by Amendment No. 6 effective August 1, 1995; by Amendment No. 7 effective December 11, 1996; by Amendment No. 8 effective January 1, 1998; by Amendment No. 9 effective as of January 1, 1997; by Amendment No. 10 effective in part March 1, 1998 and in part April 1, 1998; and by Amendment No. 11 effective as of May 15, 1998.

The Company adopted the H&R Block Supplemental Deferred Compensation Plan for Executives (the "Supplemental Plan") effective as of May 1, 1994. The Company amended said Supplemental Plan by Amendment No. 1 effective September 7, 1994; by Amendment No. 2 effective August 1, 1995; by Amendment No. 3 effective December 11, 1996; by Amendment No. 4 effective January 1, 1998; by Amendment No. 5 effective May 1, 1997; by Amendment No. 6 effective in part March 1, 1998 and in part April 1, 1998; and by Amendment No. 7 effective as of May 15, 1998.

The Company combined the DCP and the Supplemental Plan into one plan known as the H&R Block Deferred Compensation Plan for Executives, as Amended and Restated (the "Plan") and made other amendments to the Plan effective January 1, 1999. The Company amended the Plan by Amendment No. 1 effective January 1, 1999; by Amendment No. 2 effective January 1, 2000; by Amendment No. 3 effective September 8, 1999; by Amendment No. 4 effective December 31, 1999; and by Amendment No. 5 effective January 1, 2001.

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 by amending and restating the Plan. The Plan shall be amended and restated effective as of July 1, 2002.

The Plan is intended to be an unfunded plan maintained primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees as described in Sections 201(2), 301(a)(3) and 401(a)(1) of the Employee Retirement Income Security Act of 1974 ("ERISA").

ARTICLE 1 DEFERRED COMPENSATION ACCOUNT

Section 1.1 Establishment of Account. The Company shall establish an Account for each Participant which shall be utilized solely as a device to measure and determine the amount of deferred compensation to be paid under the Plan.

Section 1.2 Property of Company and Participating Affiliates. Any amounts so set aside for benefits payable under the Plan are the property of the Company and its Participating Affiliates, except, and to the extent, of any assignment of such assets to an irrevocable trust.

ARTICLE 2 DEFINITIONS, GENDER, AND NUMBER

Section 2.1 Definitions. Whenever used in the Plan, the following words and phrases shall have the meanings set forth below unless the context plainly requires a different meaning, and when a defined meaning is intended, the term is capitalized.

2.1.1 “Account” means the device used to measure and determine the amount of deferred compensation to be paid to a Participant or Beneficiary under the Plan, and may refer to the separate Accounts that represent amounts deferred by a Participant under separate Permissible Deferral elections or by the Company pursuant to Section 4.1.

2.1.2 “Accounting Firm” means an accounting firm in which the Company has no direct or indirect ownership interest but with which an Accounting Subsidiary has a contractual relationship in respect of one or more employees who are employees of both such accounting firm and such Accounting Subsidiary.

2.1.3 “Accounting Subsidiary” means an indirect accounting firm subsidiary of the Company that is involved in the provision of non-attest accounting services, the management of one or more Accounting Firms, and/or the ownership of one or more other accounting firm subsidiaries of the Company.

2.1.4 “Affiliates” or “Affiliate” means a group of entities, including the Company, which constitutes a controlled group of corporations (as defined in section 414(b) of the Code), a group of trades or businesses (whether or not incorporated) under common control (as defined in section 414(c) of the Code), and members of an affiliated service group (within the meaning of section 414(m) of the Code.)

2.1.5 “Age” of a Participant means the number of whole years that have elapsed since the date of the Participant’s birth.

2.1.6 “Assumed Interest Rate” has the meaning specified in Section 6.5.3.

2.1.7 “Base Salary” of an Executive for any Deferral Period means the total salary and wages paid by all Affiliates to such individual during that Deferral Period, including any amount which would be included in the definition of Base Salary, but for the individual’s election to defer some of his or her salary pursuant to this Plan or some other deferred compensation plan established by an Affiliate; but excluding any other remuneration paid by Affiliates, such as overtime, net commissions, bonuses, stock options, distributions of compensation previously deferred, restricted stock, allowances for expenses (including moving, travel expenses, and automobile allowances), and fringe benefits (cash or noncash). The “Base Salary” of a Production Executive for any Deferral Period means the total earnings and wages, including any and all commissions, incentives and bonuses, paid by all Affiliates to such individual during that Deferral Period, including any amount which would be included in the definition of Base Salary, but for the individual’s election to defer some of his or her earnings pursuant to this Plan or some other deferred compensation plan established by an Affiliate; but excluding any other remuneration paid by Affiliates, such as overtime, stock options, distributions of compensation previously deferred, restricted stock, allowances for expenses (including moving, travel expenses, and automobile allowances), and fringe benefits payable in a form other than cash. In the case of an individual who is a

participant in a plan sponsored by an Affiliate which is described in Section 401(k) of the Code (“401(k) plan”), the term Base Salary shall include any amount which would be included in the definition of Base Salary, but for the individual’s election to reduce his or her salary or earnings and have the amount of the reduction contributed to the 401(k) plan on his or her behalf.

2.1.8 “Beneficiary” or “Beneficiaries” means the persons or trusts designated by a Participant in writing pursuant to Section 6.7.2 of the Plan as being entitled to receive any benefit payable under the Plan by reason of the death of a Participant, or, in the absence of such designation, the persons specified in Section 6.7.3 of the Plan.

2.1.9 “Board” means the Board of Directors of the Company as constituted at the relevant time.

2.1.10 “Bonus” or “Bonuses” of an Executive for any Plan Year means the total remuneration paid under the various annual management bonus programs (“annual bonuses”) by Affiliates to such individual for that Plan Year including any amount which would be included in the definition of Bonus, but for the individual’s election to defer some or all of his or her annual bonus pursuant to this Plan or some other deferred compensation plan established by an Affiliate; but excluding any other remuneration paid by Affiliates, such as Base Salary, overtime, net commissions, stock options, distributions of compensation previously deferred, restricted stock, allowances for expenses (including moving, travel expenses, and automobile allowances), and fringe benefits payable in a form other than cash. For purposes of this Plan, the terms Bonus and Bonuses specifically exclude any and all types of commissions, incentives or bonuses paid by any Affiliate to a Production Executive.

2.1.11 “Change in Control” has the meaning specified in Section 10.2

2.1.12 “Closing Price” means the closing price of the Company’s Common Stock on the New York Stock Exchange as of the applicable date; provided, however, that if no closing price is available for such date, “Closing Price” means the closing price of the Company’s Common Stock as of the immediately preceding date for which a price is available.

2.1.13 “Code” means the Internal Revenue Code of 1986, as amended from time to time and any successor statute. References to a Code section shall be deemed to be to that section or to any successor to that section.

2.1.14 “Common Stock” means the common stock of the Company.

2.1.15 “Company” means H&R Block, Inc.

2.1.16 “Company Contribution” or “Company Contributions” means the sum of (i) the Company Matching Contributions described in Section 4.1.2, and (ii) the additional Company contributions described in Section 4.1.3.

2.1.17 “Compensation Committee” means the Compensation Committee of the Board.

2.1.18 “DCP” means the H&R Block Deferred Compensation Plan for Executives

initially adopted by the Company effective as of August 1, 1987, as subsequently amended effective prior to January 1, 1999.

2.1.19 “Deferral Amount” means (i) in the case of Base Salary, the amount of Base Salary that a Participant elects to defer each Deferral Period under a Permissible Deferral, and (ii) in the case of Bonus, the amount of Bonus that a Participant elects to defer during the Enrollment Period of October 1 through December 15, effective for the Deferral Periods of the succeeding Plan Years, under a Permissible Deferral. The amount of Base Salary included in the Deferral Amount shall be equal to a percentage of the Participant’s Base Salary that is not less than three percent (3%) and either (a) not greater than fifty percent (50%) for Permissible Deferrals of persons who are employed by a Group 1 Participating Affiliate, or (b) not greater than twenty percent (20%) for Permissible Deferrals of persons who are employed by a Group 2 Participating Affiliate. In the event a Participant who is employed by a Group 2 Participating Affiliate has completed a Permissible Deferral election to defer as of January 1, 2002, greater than twenty percent (20%) of Base Salary and such Participant does not reduce his or her Permissible Deferral election of Base Salary to twenty percent (20%) or less during the Enrollment Period of May 15, 2002 through June 14, 2002, the Participant’s Permissible Deferral election of Base Salary will automatically be reduced to twenty percent (20%) of Base Salary effective for the Deferral Period beginning July 1, 2002 and for all Deferral Periods thereafter, unless the Participant (i) loses eligibility to make deferrals under the Plan pursuant to Section 3.6, (ii) changes his or her Permissible Deferral election to a percentage less than twenty percent (20%) during a subsequent Enrollment Period, or (iii) terminates his or her Permissible Deferral election pursuant to Section 6.8. The amount of Bonus or Bonuses included in the Deferral Amount shall be equal to (i) a flat dollar amount (not greater than the maximum percentage of the Bonus specified in (ii), below), or (ii) a percentage of the Bonus or Bonuses paid during the Plan Year that is not less than five percent (5%) and either (A) not greater than fifty percent (50%) for Permissible Deferrals of persons who are employed by a Group 1 Participating Affiliate, or (B) not greater than twenty percent (20%) for Permissible Deferrals of persons who are employed by a Group 2 Participating Affiliate. In the event a Participant who is employed by a Group 2 Participating Affiliate has completed a Permissible Deferral election to defer as of January 1, 2002, greater than twenty percent (20%) of Bonus, such election will remain in effect for the remainder of the Plan Year that began January 1, 2002 (unless the Participant loses eligibility to make deferrals under the Plan pursuant to Section 3.6 or terminates his or her Permissible Deferral election pursuant to Section 6.8), after which Plan Year the Participant’s Permissible Deferral election of Bonus will automatically be reduced to twenty percent (20%) of Bonus for the 2003 Plan Year and all Plan Years thereafter, unless the Participant changes his or her Permissible Deferral election to a percentage less than twenty percent (20%) during a subsequent October 1 through December 15 Enrollment Period. In the case of a Participant who concurrently receives remuneration from both an Accounting Subsidiary and an Accounting Firm for providing services to each entity, the calculation of the amount of the Deferral Amount that the Participant is permitted to elect shall be made by taking into account the remuneration paid to such Participant by the Accounting Firm, but the actual deferral under the Plan shall only be made out of the Base Salary and/or Bonus or Bonuses paid by the Accounting Subsidiary and any other Affiliate.

2.1.20 “Deferral Period” means a six-month period either (i) beginning January 1 and ending June 30, or (ii) beginning July 1 and ending December 31.

2.1.21 “Deferred Compensation Unit” means a unit equal in value to one share of Common Stock and posted to a Participant’s Account for the purpose of measuring the benefits payable under the Plan.

2.1.22 “Disabled” or “Disability” with respect to a Participant shall have the same definition as in the then existing group long-term disability insurance program sponsored by HRB Management, Inc.

2.1.23 “Early Retirement Date” of a Participant means the first day of the first calendar month commencing on or after the date on which (i) the Participant has reached Age 55 while in the employ of an Affiliate and (ii) the Participant has completed at least ten (10) “Years of Service.”

2.1.24 “Eligibility Committee” means the Chief Executive Officer of the Company, the Chief Financial Officer of the Company, and the senior officer of the Company responsible for human resources.

2.1.25 “Enrollment Period” for a Deferral Period that begins January 1 means the immediately preceding period of October 1 through December 15, inclusive. “Enrollment Period” for a Deferral Period that begins July 1 means the immediately preceding period of May 1 through June 15, inclusive; provided, however, that for the Deferral Period that begins July 1, 2002, the Enrollment Period means the immediately preceding period of May 15 through June 14, inclusive. At its sole and absolute discretion, the Compensation Committee may grant to a person eligible to participate in the Plan an “Enrollment Period” consisting of the 30-day period immediately following the date on which such person is first employed by a Participating Affiliate.

2.1.26 “Executive” means a person other than a Production Executive with substantial responsibility in the management of a Participating Affiliate employed on a full-time basis by that Participating Affiliate.

2.1.27 “5-year payout” has the meaning specified in Section 6.4.2.

2.1.28 “Group A Participant” has the meaning specified in Section 3.1.1.

2.1.29 “Group B Participant” has the meaning specified in Section 3.1.2.

2.1.30 “Group 1 Participating Affiliate” means a Participating Affiliate other than a Group 2 Participating Affiliate.

2.1.31 “Group 2 Participating Affiliate” means RSM McGladrey, Inc., RSM EquiCo, Inc. and their respective U.S. subsidiaries, and such other Participating Affiliates as may be designated as a Group 2 Participating Affiliate by the Compensation Committee from time to time.

2.1.32 “Hours of Service” means hours of service determined in accordance with the provisions of the Qualified Plan.

2.1.33 “Initial Payment Period” has the meaning specified in Section 6.5.2.

2.1.34 “Matching Contributions” has the meaning specified in Section 4.1.2.

2.1.35 “Normal Retirement Date” of a Participant means the last day of the calendar month in which the Participant reaches the Age of 65 while in the employ of an Affiliate.

2.1.36 “Overall Payment Period” has the meaning specified in Section 6.5.1.

2.1.37 “Participant” means an Executive or a Production Executive who is eligible to participate in the Plan and (i) has elected to participate in the Plan or (ii) has a Matching Contribution posted to his or her Account pursuant to Section 2.1.37.

2.1.38 “Participating Affiliate” or “Participating Affiliates” means the Company and the following indirect subsidiaries of the Company, each of which is an Affiliate: HRB Management, Inc., H&R Block Services, Inc., Block Financial Corporation, HRB Business Services, Inc., and the majority-owned U.S. subsidiaries of such indirect subsidiaries; and such other Affiliates as may be designated as a Participating Affiliate by the Compensation Committee from time to time.

2.1.39 “Permissible Deferral” means, with respect to a Deferral Period, a deferral in that Deferral Period of a Deferral Amount. For all Participants, the aggregate of all deferrals made under the Plan, the DCP, and the Supplemental Plan may not exceed one million dollars ($1,000,000.00).

In the case of a Participant who concurrently receives remuneration from both an Accounting Subsidiary and an Accounting Firm for providing services to each entity, the calculation of the amount of the Permissible Deferral shall be made by taking into account the remuneration paid to such Participant by the Accounting Firm, but the actual deferral under the Plan shall only be made out of Base Salary and/or Bonus or Bonuses paid by the Accounting Subsidiary and any other Affiliate.

Deferrals may be made from Base Salary for a Deferral Period and/or from a Bonus or Bonuses applicable to the Plan Year. Deferrals from Base Salary during a Deferral Period are made in accordance with the most recent election made by the Participant applicable to Base Salary during an Enrollment Period. Deferrals from a Bonus or Bonuses are made in accordance with the most recent election made by the Participant applicable to Bonuses during an Enrollment Period of October 1 through December 15 of a Plan Year. Deferral elections must specify (i) the percentage (stated as an integer) of the deferral that is intended to be deducted from the Base Salary and, (ii) in the case of a deferral election made during an Enrollment Period of October 1 through December 15 of a prior Plan Year, the percentage (stated as an integer) or the flat dollar amount of the deferral that is intended to be deducted from the Bonus or Bonuses. Deferrals made from the Base Salary shall be made in installments, as instructed and approved by the Compensation Committee. Deferrals made from each Bonus shall be made at the time or times during the applicable Plan Year that the Bonus would otherwise be paid to the Participant (based upon the deferral election in effect for the Plan Year when the Bonus was earned without further contingency). Each installment of a deferral shall be rounded to the nearest whole dollar amount.

2.1.40 “Plan” means the “H&R Block Deferred Compensation Plan for Executives, as Amended and Restated,” as set forth herein and as further amended

and/or restated from time to time thereafter.

2.1.41 “Plan Year” means the calendar year, except for (a) Permissible Deferrals of Participants elected during the Enrollment Period of the period between January 4, 1999 and January 31, 1999, (b) Permissible Deferrals elected to commence on March 1, 1998, (c) Permissible Deferrals elected during an Enrollment Period described in Section 2.1.25, and (d) Permissible Deferrals of Group A Participants elected to commence on or before May 1, 1990. For Permissible Deferrals of Group A Participants elected to commence on or before May 1, 1990, “Plan Year” means the 12-month period ending each April 30, through April 30, 1997, the period between May 1, 1997 and December 31, 1997, inclusive, and the calendar year thereafter. For Permissible Deferrals of Participants elected to commence on March 1, 1998, “Plan Year” means the 10-month period between March 1, 1998 and December 31, 1998, inclusive, and the calendar year thereafter. If the Compensation Committee grants to a person eligible to participate in the Plan a discretionary Enrollment Period in accordance with Section 2.1.25 and such person submits to the Company a Permissible Deferrable election during such Enrollment Period, such Participant’s first “Plan Year” shall be the period (i) beginning on the first day of the first calendar month commencing not less than 45 days after the date that such Participant is first employed by a Participating Affiliate, and (ii) ending on December 31 of the calendar year in which such calendar month falls. For Permissible Deferrals of Participants elected during the Enrollment Period consisting of the period between January 4, 1999 and January 31, 1999, inclusive, “Plan Year” means the 10-month period between March 1, 1999 and December 31, 1999, inclusive, and the calendar year thereafter. Plan Years under the DCP and Supplemental Plan shall constitute Plan Years under this Plan, provided that, for all purposes hereunder, a Participant that participated in both the DCP and the Supplemental Plan simultaneously shall be considered to have participated in this Plan for only one Plan Year for each Plan Year of simultaneous participation in the DCP and Supplemental Plan.

2.1.42 “Plan Year Payment Period” has the meaning specified in Section 6.5.2.

2.1.43 “Production Executive” means a person who is employed on a full-time basis by a Participating Affiliate, receives some part of his or her compensation in the form of commissions, and is responsible for managing, overseeing, directing or handling the accounts of clients of the Participating Affiliate.

2.1.44 “Qualified Plan” means the H&R Block Retirement Savings Plan or any successor plan that is intended to satisfy the requirements of section 401 of the Code.

2.1.45 “Remainder Payment Period” has the meaning specified in Section 6.5.2.

2.1.46 “Standard Form of Benefit” as to any Participant means semimonthly payments for a fifteen (15) year period.

2.1.47 “Supplemental Plan” means the H&R Block Supplemental Deferred Compensation Plan for Executives that was initially adopted by the Company effective as of May 1, 1994, subsequently amended thereafter, and combined with the DCP effective January 1, 1999.

2.1.48 “10-year payout” has the meaning specified in Section 6.4.2.

2.1.49 “3-year payout” has the meaning specified in Section 6.4.2.

2.1.50 “Trust” means the H&R Block, Inc. Deferred Compensation Trust Agreement.

2.1.51 “Years of Service” means the number of Plan Years (including years prior to August 1, 1987) for which the Participant had at least 1,000 Hours of Service.

Section 2.2 Gender and Number. Except as otherwise indicated by context, masculine terminology used herein also includes the feminine and neuter, and terms used in the singular may also include the plural.

ARTICLE 3 PARTICIPATION

Section 3.1 Who May Participate. Participation in the Plan is limited to Group A and Group B Participants, described as follows:

3.1.1 “Group A Participant” is an Executive (i) serving as a Vice President or more senior officer of the Company, or (ii) who was eligible to participate in the DCP as a “Group A Participant” as of December 31, 1998, as such term was defined in the DCP as of such date, and was a participant in the DCP or Plan on or before January 1, 2001.

3.1.2 “Group B Participant” is an Executive or Production Executive who does not qualify as a Group A Participant, but who is designated by the Compensation Committee or the Eligibility Committee as eligible to participate in the Plan. The Eligibility Committee will report to the Compensation Committee not less frequently than annually the individuals whom the Eligibility Committee classifies as Group B Participants.

Section 3.2 Time and Conditions of Participation. An eligible Executive or Production Executive shall become a Participant only upon (i) (A) the individual’s completion of a Permissible Deferral election for the succeeding Deferral Period or Deferral Periods during an Enrollment Period, in accordance with a form established by the Company from time to time, or (B) in the case of an eligible Executive or Production Executive who has not completed a Permissible Deferral election, the Company posting a Matching Contribution to such individual’s Account, and (ii) compliance with such terms and conditions as the Compensation Committee may from time to time establish for the implementation of the Plan, including, but not limited to, any condition the Compensation Committee may deem necessary or appropriate for the Company to meet its obligations under the Plan. An individual may make a Permissible Deferral election for any succeeding Deferral Period during an Enrollment Period provided the total Permissible Deferral elections do not exceed the limitation set forth in Section 2.1.39. A Permissible Deferral election made during an Enrollment Period for a succeeding Deferral Period shall remain in effect for each Deferral Period subsequent to such succeeding Deferral Period unless (a) the Participant changes his or her Permissible Deferral election during a subsequent Enrollment Period (in which case such changed Permissible Deferral election shall apply to the next succeeding Deferral Period and subsequent Deferral Periods unless and until the Permissible Deferral election is properly changed again), (b) the Compensation Committee permits the Participant to terminate future deferrals or withdraw his or her total Account pursuant to Section 6.8, (c) total Permissible Deferrals reach the limitation set forth in Section 2.1.39, or (d) the Participant elects to receive a payment pursuant to Section 6.2.1.

Section 3.3 Termination of Participation. Once an individual has become a Participant in the Plan, participation shall continue until the first to occur of (i) payment in full of all benefits to which the Participant or Beneficiary is entitled under the Plan (unless the Participant has elected to receive payment in full pursuant to Section 6.2.1) or (ii) the occurrence of an event specified in Section 3.4 which results in loss of benefits. Except as otherwise specified in the Plan, the Company may not terminate an individual's participation in the Plan.

Section 3.4 Missing Persons. If the Company is unable to locate the Participant or his or her Beneficiary for purposes of making a distribution, the amount of a Participant's benefits under this Plan that would otherwise be considered as non-forfeitable shall be forfeited effective four (4) years after (i) the last date a payment of said benefit was made, if at least one such payment was made, or (ii) the first date a payment of said benefit was directed to be made by the Company pursuant to the terms of the Plan, if no payments had been made. If such person is located after the date of such forfeiture, the benefits for such Participant or Beneficiary shall not be reinstated hereunder.

Section 3.5 Relationship to Other Plans. Participation in the Plan shall not preclude participation of the Participant in any other fringe benefit program or plan sponsored by an Affiliate for which such Participant would otherwise be eligible.

Section 3.6 Changes in Employment Status. If a Participant has a change in his or her employment responsibilities, title, compensation, and/or performance, such that the Participant would not qualify for initial participation in the Plan as a Group A Participant or Group B Participant, as determined by the Compensation Committee or the Eligibility Committee, (i) the Participant shall continue to make deferrals in accordance with the Participant's Permissible Deferral election for the Deferral Period during which the change in employment responsibilities, title, compensation, and/or performance occurs, (ii) the Participant shall not be eligible to make Permissible Deferrals in Deferral Periods following the Deferral Period during which the change in employment responsibilities, title, compensation, and/or performance occurs unless and until the Participant again qualifies for initial participation as a Group A Participant or a Group B Participant, as determined by the Compensation Committee or the Eligibility Committee, and (iii) the Participant shall otherwise continue to participate in the Plan.

Section 3.7 Participation upon Reemployment. If a Participant terminates employment with all Affiliates and later becomes reemployed by an Affiliate, (i) the Participant shall not be eligible to make Permissible Deferrals unless and until the Participant again qualifies for initial participation as a Group A Participant or a Group B Participant, as determined by the Compensation Committee or the Eligibility Committee, and (ii) the Participant shall otherwise continue to participate in the Plan.

ARTICLE 4 ENTRIES TO THE ACCOUNT

Section 4.1 Contributions.

4.1.1 Deferrals. During each Deferral Period, if the Participant elects the fixed rate and/or variable crediting rate option for measuring the performance of the Account under Section 4.2, the Company shall post to the Account of such Participant the dollar amount of Base Salary and Bonuses to be deferred as designated by the Participant's

Permissible Deferral election in effect for that Deferral Period. Deferrals from Base Salary each calendar month shall be posted as of the first day of such month and deferrals from Bonuses shall be posted as of the first day of the calendar month in which the Bonus would otherwise have been paid to the Participant.

During each Deferral Period, if the Participant elects the Common Stock crediting rate option for measuring the performance of the Account under Section 4.2, the Company shall post to the Account of such Participant a number of Deferred Compensation Units equivalent to the amount of Base Salary and Bonuses to be deferred as designated by the Participant's Permissible Deferral election in effect for that Deferral Period. Deferrals from Base Salary each calendar month (and the corresponding number of Deferred Compensation Units) shall be posted as of the first day of such month and deferrals from Bonuses shall be posted as of the first day of the calendar month in which the Bonus would otherwise have been paid to the Participant. The number of Deferred Compensation Units posted for each calendar month shall be calculated by dividing: (i) the dollar amount deferred during that month; by (ii) the Closing Price on the first business day (i.e., a day on which the Common Stock is traded on the New York Stock Exchange) of that month. A Participant may elect to allocate no more than twenty-five percent (25%) of his or her deferrals to the Common Stock crediting rate. In the event a Participant has previously elected to allocate more than twenty-five percent (25%) of his or her deferrals to the Common Stock crediting rate and such election has not been changed on or before June 30, 2002, effective July 1, 2002, the Participant's allocation election will automatically be changed to reduce such allocation of deferrals to the Common Stock crediting rate to twenty-five percent (25%) and the amount previously allocated to the Common Stock crediting rate that exceeds twenty-five percent (25%) will automatically be allocated to the fixed rate crediting option.

4.1.2 Company Matching Contributions. Beginning January 1, 2003, the Company shall post once each Plan Year to the Account of each Participant (including an eligible Executive or Production Executive who becomes a Participant by virtue of such posting) "Matching Contributions" equal to one hundred percent (100%) of the first five percent (5%) of a Participant's Base Salary and Bonus deferred to the Qualified Plan, the Option One Mortgage Corporation Retirement Plus Plan, or the Plan during the immediately preceding Plan Year while employed by a Group 1 Participating Affiliate less any employer matching contribution made to the Qualified Plan or the Option One Mortgage Corporation Retirement Plus Plan during the immediately preceding Plan Year; provided, however, that Matching Contributions posted in 2003 shall be determined by considering only the Participant's Base Salary and Bonus deferred to the Qualified Plan, the Option One Mortgage Corporation Retirement Plus Plan, or the Plan during the period of July 1, 2002 through December 31, 2002 less any employer matching contribution made to the Qualified Plan or the Option One Mortgage Corporation Retirement Plus Plan during the period of July 1, 2002 through December 31, 2002.

If the Participant elects the Common Stock crediting rate option for measuring the performance of the Account under Section 4.2, the Company shall post to the Account of such Participant for each calendar month a number of Deferred Compensation Units equal to (i) the dollar amount of Matching Contributions posted to the Account during such month; divided by (ii) the Closing Price on the first business day of that month. Deferred Compensation Units attributable to Matching

Contributions shall be posted as of the same time as the corresponding Matching Contributions.

4.1.3 Additional Company Contributions. Prior to July 1, 2002, the Company posted once each Plan Year to the Account of each Participant who was also a participant in the Qualified Plan the difference, if any, between (a) the amount for that Plan Year which would have been contributed on behalf of the Participant to the Qualified Plan as an employer discretionary profit sharing contribution if the Participant had not made a Permissible Deferral election under the Plan; and (b) the actual amount for that Plan Year that was contributed on behalf of the Participant to the Qualified Plan as an employer discretionary profit sharing contribution.

4.1.4 Disability. During the first 90-day period in which a Participant is Disabled, deferrals and Matching Contributions (and, if applicable, the corresponding number of Deferred Compensation Units) shall continue to be posted as described in Sections 4.1.1 and 4.1.2. If a Participant continues to be Disabled after such 90-day period, deferrals will cease but Matching Contributions will continue for the balance of the Plan Year during which the Participant became Disabled as if the Participant's deferrals had continued. A Participant may resume deferrals upon his or her return to work.

Section 4.2 Crediting Rate. Gains or losses shall be posted to the Account on a daily basis in accordance with the Participant's election of investment options which will be a reference for measuring the performance of the Account, as modified, if applicable, by Section 4.3 or Section 4.4. The Company intends to measure the performance of the Account in accordance with the Participant's election but reserves the right to do otherwise. Statements of Account balances shall be provided no less frequently than on a quarterly basis. The Participant shall elect from among the following investment options: (i) a fixed rate as described in 4.2.1, (ii) a variable rate as described in 4.2.2, or (iii) a Common Stock crediting rate as described in 4.2.3. A Participant may elect to allocate no more than twenty-five percent (25%) of his or her deferrals or Account to the Common Stock crediting rate. On a monthly basis, Participants may elect to reallocate all or any portion of their Account balances among the available investment options, including those funds selected by the Company for the variable rate investment option, provided said reallocations are in whole number increments, and further provided that said reallocations will not result in an allocation of more than twenty-five percent (25%) of their Account balances to the Common Stock crediting rate. If as of July 1, 2002, a Participant's Account has an allocation of greater than twenty-five percent (25%) of the Account to the Common Stock crediting rate, the Participant will be given the opportunity to reallocate that portion of the Account allocated to the Common Stock crediting rate that exceeds twenty-five percent (25%) of the total Account balance to another crediting rate option as of July 1, 2002. If the Participant does not elect to reallocate such excess, such excess will automatically be reallocated to the fixed rate crediting option as of July 1, 2002. If as of January 1, 2003, or any January 1 thereafter, a Participant's Account has an allocation of greater than twenty-five percent (25%) of the Account to the Common Stock crediting rate, the portion of the Account allocated to the Common Stock crediting rate that exceeds twenty-five percent (25%) of the total Account balance will automatically be reallocated to the fixed rate crediting option as of the January 1 of the year in which such reallocation was made.

Participants may change their crediting rate elections during an Enrollment Period or once each calendar month by giving the Company notice of such change in accordance with a method and/or procedures approved by the Company for that purpose. Upon receipt of such

notice submitted with enrollment materials during an Enrollment Period, the crediting rate change shall be made as of the first day of the Deferral Period to which the Enrollment Period relates. Upon receipt of such notice other than in connection with enrollment materials, the Company will effect the change on the first day of the calendar month immediately following the month in which such notice was received. Any change in crediting rate made in accordance with such notice procedures will govern the Participant's Account balance and future deferrals occurring after the effective date of such change.

4.2.1 Fixed Rate. If a Participant elects a fixed rate, the interest will be compounded on a daily basis and posted to the Participant's Account daily at an effective annual yield equal to the rate of ten-year United States Treasury notes in effect at the time as determined below. The rate will be determined four times each Plan Year and for each Plan Year quarter will be the rate in effect as of the last day of the calendar quarter immediately prior to the calendar quarter to which it applies, as published in the Wall Street Journal or as determined by the Chief Financial Officer of the Company.

Through July 1, 2002, for Permissible Deferrals elected under the DCP and commencing prior to January 1, 1995, the effective annual yield for the fixed rate crediting option was equal to one hundred twenty percent (120%) of the ten-year rolling average rate of ten-year United States Treasury notes. The ten-year rolling average rate was the rate in effect as of September 30 of the Plan Year immediately prior to the Plan Year to which it applied, as published in the Wall Street Journal or as determined by the Chief Financial Officer of the Company. Effective July 1, 2002, such effective annual yield for the fixed rate crediting option is eliminated and replaced with an effective annual yield equal to the rate of ten-year United States Treasury notes, as determined in accordance with the first paragraph of this Section 4.2.1.

4.2.2 Variable Rate. If a Participant elects a variable rate, the Participant's Account will be credited or debited as if the Account balance were invested in one or more funds selected by the Company in the proportions elected by the Participant. 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 whole number increments of the Account.

4.2.3 Common Stock Crediting Rate. If a Participant elects the Common Stock crediting rate, the Participant's Account will be valued as if his or her Account were invested in shares of Common Stock equal to the number of Deferred Compensation Units posted to his or her Account. The value of a Participant's Account will vary with the value of the Company's Common Stock. The Participant's Account will be credited, as of the applicable dividend payment date, with additional Deferred Compensation Units equal in value to any dividends declared on the Company's Common Stock based on the number of Deferred Compensation Units posted to the Participant's Account as of the record date with respect to the declaration of such dividend. As of any date of valuation, the value of a Participant's Account will be equal to the value (at the Closing Price on such date) of the number of shares of Common Stock represented by the Deferred Compensation Units credited to the Account as of that date.

Section 4.3 Crediting Rate Upon Retirement, Disability, Continued Employment After Reaching the Age of 75, Death or Termination of Employment with all Affiliates as a Result of a Change in Control. If a Participant (i) terminates employment with all Affiliates at or after Normal Retirement Date or Early Retirement Date, (ii) is Disabled, or (iii) continues

employment after reaching the Age of 75 and has completed ten (10) Years of Service, gains and losses shall be credited as described in Section 4.2 to that Participant's Accounts. If a Participant dies prior to termination of employment with all Affiliates, gains and losses shall be credited, to date of death, as described in Section 4.2 to that Participant's Accounts. If a Participant terminates employment with all Affiliates before Normal Retirement Date or Early Retirement Date as a result of a Change in Control, gains and losses to that Participant's Accounts shall be credited as described in Section 4.2 up to, but not after, the date of the Change in Control.

Section 4.4 Crediting Rate Upon Resignation or Discharge.

4.4.1 For a Participant whose employment with all Affiliates terminates on or after August 1, 1995, but before the Normal Retirement Date or the Early Retirement Date, for reasons other than death, Disability or a Change in Control, gains and losses shall be credited to that Participant's Account as described in Section 4.2 up to the date of termination of employment, and the crediting shall continue after such date for those Participants who elected a 10-year payout, a 5-year payout, or a 3-year payout, as such terms are defined in Section 6.4.2. If a Participant elected to be paid in a lump sum, there shall be no further crediting to the Participant's Account following the date of termination of employment.

4.4.2 For a Participant whose employment with all Affiliates terminated prior to August 1, 1995, and before the Normal Retirement Date or the Early Retirement Date, for reasons other than death, Disability or a Change in Control, gains and losses to that Participant's Accounts that represent completed deferral cycles shall be credited as described in Section 4.2 up to the date of termination of employment. Gains and losses to that Participant's Accounts that do not represent completed deferral cycles and gains and losses after the date of termination of employment shall be credited at an interest rate equal to the average of (i) the interest rate set by the Chief Financial Officer of the Company in his or her discretion for the Plan Year in which the termination of employment occurs, which rate shall not be less than the rate then payable on Investment Savings Accounts of $1,000 or less at Commerce Bank of Kansas City, N.A., Kansas City, Missouri, or any successor thereto, and (ii) the respective interest rates so set by the Chief Financial Officer of the Company for each of the two Plan Years immediately prior to the Plan Year in which the termination of employment occurs.

ARTICLE 5 VESTING

Section 5.1 Participant Deferrals and Vesting Schedule for Company Contributions. Participant deferrals pursuant to Section 4.1.1 are fully vested immediately. The Participant's interest in the Company Matching Contributions under Section 4.1.2 and the Company Contributions described in Section 4.1.3 shall vest according to the following schedule:

Years of Service	Percentage of Company Contributions Vested
Less than 2	None
2	20%
3	30%
4	40%

5	50%
6	60%
7	70%
8	80%
9	90%
10	100%

For purposes of crediting Years of Service under the foregoing Schedule, Participants will be credited with Years of Service beginning with the year in which the Participant began participation in the Plan. A Disabled Participant will be credited with any Hours of Service with which he or she would have been credited but for the Disability.

Section 5.2 Exceptions to Vesting Schedule. Company Contributions are fully vested upon a Participant's death prior to termination of employment, and upon a Change in Control as defined in Section 10.2. Participants who have attained Age 65 prior to the date on which they first became a Participant in the Plan and who have completed ten (10) Years of Service are fully vested. Participants who have attained Age 55 (but are less than Age 65) prior to the date on which they first became a Participant in the Plan and who have completed ten (10) Years of Service, vest according to the following formula:

$$\frac{\text{Years of Service since initial Plan participation date}}{\text{65 minus Participant's Age on initial Plan participation date.}}$$

Section 5.3 Forfeiture of Nonvested Amounts. Upon a Participant's termination of employment with all Affiliates for any reason other than death, the nonvested portion of the Participant's Account shall be forfeited to the Company. If such Participant becomes reemployed by an Affiliate, the forfeited benefits shall not be reinstated.

ARTICLE 6 DISTRIBUTION OF BENEFITS

Section 6.1 Payments After Termination of Employment. Generally, payments of benefits to a Participant shall be made by the Company only upon termination, voluntary or involuntary, of the Participant's employment with all Affiliates, except to the extent, (i) the provisions of Section 6.2.1 or Section 6.2.2 apply, (ii) a Participant is disabled, (iii) the provisions of Section 6.3.2 apply, or (iv) the provisions of Section 6.8 apply.

Section 6.2 Payments During Employment.

6.2.1 On-Demand Payment. Prior to termination, voluntary or involuntary, of a Participant's employment with all Affiliates, the Participant may elect, on a form provided by the Compensation Committee and delivered by the Participant to the Company, to receive an immediate lump-sum payment of all or a portion of the one hundred percent (100%) vested balance of said Participant's Account valued as of the day immediately prior to the day such election is approved, reduced by a penalty equal to ten percent (10%) of the elected payment amount, which penalty shall be forfeited to the Company. If a Participant elects to receive a payment under this Section 6.2.1, the Participant's deferrals of Base Salary and Bonus will cease immediately and the Participant may not enter into a new Permissible Deferral election until the beginning of the second Plan Year following the Plan Year in which such election was made. Any payment elected under this Section 6.2.1 will be made to the Participant in cash as soon as administratively practicable.

6.2.2 In-Service Payments. A Participant as of January 1, 2001 may elect during the Enrollment Period for the 2001 Plan Year, and an individual who becomes a Participant as of any date after January 1, 2001 may elect during the Enrollment Period immediately prior to such individual's first day of participation in the Plan, to receive payment on one or more selected future dates of all or a portion (stated in whole number percentages or dollar amounts) of the one hundred percent (100%) vested balance of such Participant's Account attributable to deferrals and Matching Contributions made after January 1, 2001. Any such payments stated in whole number dollar amounts must be no less than $500. A Participant may make an election under this Section 6.2.2 only on a form provided by the Compensation Committee and delivered by the Participant to the Company. Any such future payment(s) may begin no earlier than during the fourth Plan Year after the Plan Year during which the election was made, and only one such payment may be made in any Plan Year. A Participant may cancel or postpone a scheduled payment elected under this Section 6.2.2 provided that such cancellation or postponement is made on a form provided by the Compensation Committee and delivered by the Participant to the Company and is made no later than the end of the second Plan Year prior to the Plan Year during which such payment is scheduled to be made. A scheduled payment under this Section 6.2.2 may be postponed only one time. A scheduled payment that is postponed may subsequently be cancelled in accordance with this Section 6.2.2. The actual distribution amount of any payment under this Section 6.2.2 shall be determined as of the first day of the month preceding or coincident with the applicable payment date and shall be paid to the Participant in cash as soon as administratively practicable after such determination. The actual distribution amount of a payment elected under this Section 6.2.2 may be less than the amount elected. An election under this Section 6.2.2 shall only be honored by the Compensation Committee while the Participant is an active employee of the Company or its Affiliates and shall not be reinstated upon the Participant's reemployment by an Affiliate after termination of employment with all Affiliates.

Section 6.3 Form of Benefits Upon Retirement, Disability or Continued Employment After Reaching the Age of 75.

6.3.1 Retirement or Disability. Payments from the Account shall be made in accordance with the Standard Form of Benefit for Participants who terminate employment on or after Normal Retirement Date or Early Retirement Date or are Disabled. However, no less than 12 months prior to such termination of employment, the Participant may petition the Compensation Committee for, and the Compensation Committee may approve at such time, an optional form of benefit.

6.3.2 Continued Employment After Reaching the Age of 75. If a Participant reaches the Age of 75 while in the employ of an Affiliate, and has completed ten (10) Years of Service, payment of benefits shall commence in the first pay period of the first calendar quarter that begins at least forty-five (45) days after the date on which the Participant reaches the Age of 75. Payments from the Account shall be made in accordance with the Standard Form of Benefit. However, no less than 12 months prior to the date on which the Participant reaches the Age of 75, the Participant may petition the Compensation Committee for, and the Compensation Committee may approve at such time, an optional form of benefit.

6.3.3 Lump-Sum Payment. Notwithstanding any other provisions of the Plan, a Participant who terminates employment on or after Normal Retirement Date or Early Retirement Date, and a Participant who reaches the Age of 75 while in the employ of an Affiliate may, at any time before or after a Change in Control, as defined in Section 10.2, elect to receive an immediate lump-sum payment of the aggregate of the balances of said Participant's Accounts reduced by a penalty, which shall be forfeited to the Company, in lieu of payments in accordance with the Standard Form of Benefit or such optional form of benefit as may have previously been approved by the Compensation Committee under this Section 6.3. The penalty shall be equal to ten percent (10%) of the aggregate of the balances of such Accounts if the election is made before a Change in Control and shall be equal to five percent (5%) of the aggregate of the balances of such Accounts if the election is made after a Change in Control. However, the penalty shall not apply if the Compensation Committee determines, based on advice of counsel or a final determination or ruling by the Internal Revenue Service or any court of competent jurisdiction, that by reason of the provisions of this paragraph any Participant has recognized or will recognize gross income for federal income tax purposes under this Plan in advance of payment to the Participant of Plan benefits. The Company shall notify all Participants of any such determination by the Compensation Committee and shall thereafter refund all penalties which were imposed hereunder in connection with any lump-sum payments made at any time during or after the first year to which the Compensation Committee's determination applies (i.e., the first year for which, by reasons of the provisions of this paragraph, gross income under this Plan is recognized for federal income tax purposes in advance of payment of benefits). Interest compounded annually shall be paid by the Company to the Participant (or the Participant's Beneficiary if the Participant is deceased) on any such refund from the date of the Company's payment of the lump sum at an annual 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 such refund is paid, as published in the Wall Street Journal or as determined by the Chief Financial Officer of the Company. The Compensation Committee may also reduce or eliminate the penalty if it determines that the right to elect an immediate lump-sum payment under this paragraph, with the reduced penalty or with no penalty, as the case may be, will not cause any Participant to recognize gross income for federal income tax purposes under this Plan in advance of payment to the Participant of Plan benefits.

Section 6.4 Form of Benefits Upon Resignation or Discharge, or Termination of Employment with all Affiliates as a Result of a Change in Control.

6.4.1 Upon a Participant's termination of employment with all Affiliates before Normal Retirement Date or Early Retirement Date, but following a Change in Control, payments from the Account shall be paid in a lump sum within forty-five (45) days after the date of the termination of employment.

6.4.2 If a Change in Control has not occurred, for Participants who terminate employment with all Affiliates on or after August 1, 1995, but before the Normal Retirement Date or the Early Retirement Date, for reasons other than Disability or death, payment(s) from the Account shall be in the form of (a) semimonthly payments over a three-year period (a "3-year payout"), or (b) a lump sum, as elected by the Participant in accordance with Section 6.4.4, provided that, for such Participants in the Plan as of September 8, 1999, who (i) had elected to receive payments from the Account in the form of (x) semimonthly payments over a 10-year period (a "10-year payout"), or

(y) semimonthly payments over a five-year period (a "5-year payout"), pursuant to Section 6.4.2 (as in effect immediately prior to September 8, 1999), and (ii) do not make a different election after September 8, 1999, pursuant to Section 6.4.4, payments from the Account shall be in the form of such elected 10-year payout or 5-year payout, as the case may be.

6.4.3 If a Change in Control has not occurred, for Participants who terminated employment with all Affiliates prior to August 1, 1995, but before the Normal Retirement Date or the Early Retirement Date, for reasons other than Disability or death, payment(s) from the Account shall be in the form of (a) semi-monthly payments over a three-year period for all Permissible Deferrals that satisfy a completed deferral cycle, or (b) a lump sum for all Permissible Deferrals that do not satisfy a completed deferral cycle.

6.4.4 An election under Section 6.4.2 for a 3-year payout or a lump-sum payout shall be made by the Participant at the time of the Participant's first Permissible Deferral election, and may be changed by the Participant no more than once in every 12-consecutive-month period thereafter. If no election under Section 6.4.2 is made by a Participant eligible to make such an election, payment from the Account shall be in the form of a lump sum. If a Participant participated in the Plan prior to September 8, 1999, and made an election for a 10-year payout or a 5-year payout pursuant to Section 6.4.2, as such Section existed prior to September 8, 1999, such Participant may elect a 3-year payout or a lump-sum payout during or after the first Enrollment Period commencing after September 8, 1999, provided that any such Participant may not change such election more than once in every 12-consecutive-month period after such new election, and, provided further, that once any such Participant has elected a 3-year payout or a lump-sum payout pursuant to this Section 6.4.4, such Participant may not again elect a 10-year payout or a 5-year payout. Upon termination of employment before the Normal Retirement Date or the Early Retirement Date for reasons other than death or disability, payouts from the Account (with respect to all Permissible Deferral elections made by the Participant) shall be in accordance with the most recent election made pursuant to this Section 6.4.4 (or, if applicable, pursuant to Section 6.4.2, as such Section existed prior to September 8, 1999) not less than 12 months prior to such termination of employment.

6.4.5 If an eligible Participant has elected a 10-year payout or a 5-year payout pursuant to Section 6.4.2 (as such Section 6.4.2 (then Section 6.3.2) existed prior to September 8, 1999), or if an eligible Participant has elected a 3-year payout pursuant to Section 6.4.4, and the amount of each semimonthly installment, as initially calculated, is less than $500 (such calculation to be accomplished by amortizing the aggregate of the Participant's Account balances over the payment period using no crediting rate), the form of payment(s) for such Participant shall be a 5-year payout in lieu of an elected 10-year payout (unless the amount of each semimonthly installment under a 5-year payout, as so calculated, is also less than $500, in which case the form of payment will be a single lump sum), or a lump sum in lieu of an elected 5-year payout, or a lump sum in lieu of an elected 3-year payout, as the case may be.

6.4.6 Notwithstanding any other provisions of the Plan, an eligible Participant who (1) elects a 10-year payout, a 5-year payout, or a 3-year payout, and any such payout is not automatically converted to a lump sum pursuant to Section 6.4.5, and (2) terminates employment before the Normal Retirement Date or the Early Retirement

Date may, at any time before or after a Change in Control, as defined in Section 10.2, elect to receive an immediate lump-sum payment of the aggregate of the balances of said Participant's Accounts reduced by a penalty, which shall be forfeited to the Company, in lieu of payments in accordance with the 10-year payout or the 5-year payout, whichever is applicable. The penalty shall be equal to ten percent (10%) of the aggregate of the balances of such Accounts if the election is made before a Change in Control and shall be equal to five percent (5%) of the aggregate of the balances of such Accounts if the election is made after a Change in Control. However, the penalty shall not apply if the Compensation Committee determines, based on advice of counsel or a final determination or ruling by the Internal Revenue Service or any court of competent jurisdiction, that by reason of the provisions of this paragraph any Participant has recognized or will recognize gross income for federal income tax purposes under this Plan in advance of payment to the Participant of Plan benefits. The Company shall notify all Participants of any such determination by the Compensation Committee and shall thereafter refund all penalties which were imposed hereunder in connection with any lump-sum payments made at any time during or after the first year to which the Compensation Committee's determination applies (i.e., the first year for which, by reasons of the provisions of this paragraph, gross income under this Plan is recognized for federal income tax purposes in advance of payment of benefits). Interest compounded annually shall be paid by the Company to the Participant (or the Participant's Beneficiary if the Participant is deceased) on any such refund from the date of the Company's payment of the lump sum at an annual 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 such refund is paid, as published in the Wall Street Journal or as determined by the Chief Financial Officer of the Company. The Compensation Committee may also reduce or eliminate the penalty if it determines that the right to elect an immediate lump-sum payment under this paragraph, with the reduced penalty or with no penalty, as the case may be, will not cause any Participant to recognize gross income for federal income tax purposes under this Plan in advance of payment to the Participant of Plan benefits.

Section 6.5 Amount of Benefit.

6.5.1 Except for distributions in the form of a lump sum, benefit payments shall be in the form of semimonthly cash installments paid during the applicable payment period (the "Overall Payment Period").

6.5.2 Except as provided in Section 6.5.4, the amount of each installment payment shall be level during the portion of the Overall Payment Period ending on December 31 of the Plan Year in which benefit payments commence (the "Initial Payment Period"), during each complete Plan Year of the Overall Payment Period thereafter (a "Plan Year Payment Period"), and during any remaining period of the Overall Payment Period following the last Plan Year Payment Period (the "Remainder Payment Period"), but will vary from one such portion of the Overall Payment Period to the next. If a Participant was receiving benefits pursuant to Section 6.3 (then Section 6.2) as of August 1, 1995, payments due on and after January 1, 1996 shall be made in accordance with this Section 6.5.2 and with Section 6.5.3.

6.5.3 The amount of each level payment for the Initial Payment Period, if any, shall be calculated using the balance in the Account as of the beginning of the Initial Payment Period and amortizing such balance over the remaining Overall Payment

Period (a) using an assumed interest rate equal to the rate of one-year United States Treasury notes for each Participant receiving payments of benefits pursuant to Section 6.3 (then Section 6.2) prior to September 8, 1999, said rate to be determined once each Plan Year and to be the rate in effect as of the September 30 immediately preceding the payment period to which it applies, as published in the Wall Street Journal or as determined by the Chief Financial Officer of the Company (the “Assumed Interest Rate”), and (b) using an assumed interest rate of zero percent (0%) for all other Participants. The amount of each level payment for each Plan Year Payment Period shall be calculated by taking the balance in the Account as of November 30 of the Plan Year immediately prior to such Plan Year Payment Period, subtracting the benefit payments made during the portion of such preceding Plan Year following November 30, and amortizing the difference over the remaining Overall Payment Period (x) using the Assumed Interest Rate for each Participant receiving payments of benefits pursuant to Section 6.3 (then Section 6.2) prior to September 8, 1999, and (y) using an assumed interest rate of zero percent (0%) for all other Participants. The amount of each level payment for the Remainder Payment Period, if any, shall be calculated by taking the balance in the Account as of November 30 of the Plan Year immediately prior to the Remainder Payment Period, subtracting the benefit payments made during the portion of such preceding Plan Year following November 30, and amortizing the difference over the Remainder Payment Period using an assumed interest rate of zero percent (0%) per annum. If the actual crediting rate for the Remainder Payment Period is more than zero percent, the additional gain resulting from the difference in crediting rates shall be paid to the Participant in a single payment within six months after the last day of the Remainder Payment Period.

6.5.4 If the Participant terminates employment with all Affiliates prior to August 1, 1995, and receives benefits pursuant to Section 6.4.3, semimonthly payments for Permissible Deferrals that satisfy a completed deferral cycle shall be level during the entire Overall Payment Period and shall be calculated using the balance in the Account at the commencement of benefit payments, and amortizing such balance over three years at the crediting rate determined in accordance with Section 4.4.2.

6.5.5 Generally, the Account shall continue to be credited during the Overall Payment Period with gains and losses as provided in Section 4.3. However, if a Participant receives benefits pursuant to Section 6.4 (other than pursuant to Section 6.4.1), the Account shall be credited with gains and losses as provided in Section 4.4. Except as provided otherwise, if a Participant dies, Section 6.7 shall apply.

6.5.6 Notwithstanding anything in this Plan to the contrary, the Compensation Committee may, in its sole discretion, (i) increase or reduce any assumed interest rate set forth in this Section 6.5 and any such assumed interest rate, as so adjusted, shall be effective for calculating level semimonthly installments for Participants whose benefit payments commence after the date of such adjustment, and (ii) change the date set forth in Section 6.5.3 on which the balance in the Participant’s Account is to be determined for purposes of calculating the amount of each level payment for each Plan Year Payment Period and each Remainder Payment Period, and any such revised date shall be effective for calculating level semimonthly installments for the Plan Year Payment Period or the Remainder Payment Period beginning on or after the effective date of such revision.

Section 6.6 Time of Payment. Generally, benefit payments to a Participant shall commence in the first pay period of the calendar quarter that begins at least forty-five (45) days after the date of termination of employment. Notwithstanding the preceding sentence, if a Participant elected to be paid in a lump sum, the benefit payment shall be made within forty-five (45) days after the date of termination of employment. In the case of a Disabled Participant, benefits shall commence no later than six (6) months after the Participant's Early Retirement Date.

With respect to Permissible Deferral elections made under the DCP prior to January 1, 1997, a Participant was permitted to elect at the time of each Permissible Deferral election to defer commencement of the payment of benefits after termination of employment with respect to such Permissible Deferral election until the earlier of: (a) five (5) years after termination of employment; or (b) Age 70. If the Participant made such an election and did not revoke such election pursuant to a one-time opportunity during the Enrollment Period prior to the Plan Year commencing January 1, 1998, the Participant shall receive benefit payments in accordance with said election, provided that the Compensation Committee, upon written petition of the Participant, may begin benefit payments at an earlier time after termination if it determines that compelling reasons exist for such earlier payments. No elections to defer commencement of benefits shall be permitted under this Plan with respect to Permissible Deferrals commencing on or after January 1, 1998.

Section 6.7 Death Benefits. In the event a Participant dies after benefit payments have commenced (other than payments made pursuant to Section 6.2 or 6.8), the remaining payments, if any, shall be paid to the Participant's Beneficiary in the same manner such benefits were being paid to the Participant at the time of death and would have been paid to the Participant had the Participant survived. In the event a Participant dies before benefit payments have commenced (other than payments made pursuant to Section 6.2 or 6.8), benefit payments shall be paid to the Participant's Beneficiary in the same manner described in Section 6.4.1, if a Change in Control occurred prior to the Participant's death, or in the manner described in Section 6.4.2 (subject to Section 6.4.5), if a Change in Control did not occur prior to the Participant's death, in either case without regard to the Age of the Participant at the time of death and the number of Years of Service completed by the Participant at the time of death or whether the Participant was Disabled at the time of death, and notwithstanding the death of the Participant. The Account shall be credited from the Participant's date of death through the end of the Overall Payment Period at a rate equal to the rate of one-year United States Treasury notes, said rate to be determined once each Plan Year and to be the rate in effect as of September 30 of the Plan Year immediately prior to the Plan Year to which it applies, as published in the Wall Street Journal or as determined by the Chief Financial Officer of the Company. A Beneficiary may petition the Compensation Committee for an alternative method of payment. The Participant's Beneficiary may make the election to receive an immediate lump-sum payment of the balance of said Participant's Account in accordance with the provisions of Section 6.3.3 or Section 6.4.6, whichever is applicable, and all provisions set forth therein relating to penalties shall apply to any such election.

In addition, if a Participant dies on or after such Participant's Normal Retirement Date or Early Retirement Date after having retired, or after benefits have commenced because of the Participant's Disability, an annuity shall be paid to the Participant's surviving spouse, if any (to whom he or she has been married at least one (1) year prior to the date of death). The annuity shall be for the life of the Participant's surviving spouse with each semimonthly payment equal to fifty percent (50%) of the average amount which would have been payable to the Participant and his or her Beneficiary if, on the date benefits commenced, the Participant had received the

Standard Form of Benefit payment. If the Participant's surviving spouse is more than thirty-six (36) months younger than the Participant, the survivor life annuity payable to such spouse shall be reduced by one-half of one percent (.5%) for each month the spouse is more than thirty-six (36) months younger than the Participant. Payment shall commence on the first day of the month following the completion of the benefits payable under the first paragraph of this Section 6.7.

6.7.1 Marital Deduction. Any benefits which become payable under this Article 6 to the surviving spouse of a Participant shall be paid in a manner which will qualify such benefits for a marital deduction in the estate of a deceased Participant under the terms of Section 2056 of the Code, and unless specifically directed by a Participant to the contrary pursuant to an effective beneficiary designation, any portion of a Participant's death benefit payable to a surviving spouse which remains unpaid at the death of such spouse shall be paid to the spouse's estate.

6.7.2 Designation by Participant. Each Participant has the right to designate primary and contingent Beneficiaries for death benefits payable under the Plan. Such Beneficiaries may be individuals or trusts for the benefit of individuals. A Beneficiary designation by a Participant shall be in writing on a form acceptable to the Compensation Committee and shall only be effective upon delivery to the Company. 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. A Beneficiary designation may be revoked by a Participant at any time by delivering to the Company either written notice of revocation or a new Beneficiary designation form. The Beneficiary designation form last delivered to the Company prior to the death of a Participant shall control.

6.7.3 Failure to Designate Beneficiary. In the event there is no Beneficiary designation on file with the Company, or all Beneficiaries designated by a Participant have predeceased the Participant, the benefits payable by reason of the death of the Participant shall be paid to the Participant's spouse, if living; if the Participant does not leave a surviving spouse, to the Participant's issue by right of representation; or, if there are no such issue then living, to the Participant's estate. In the event there are benefits remaining unpaid at the death of a sole Beneficiary and no successor Beneficiary has been designated, either by the Participant or the Participant's spouse pursuant to 6.7.1, the remaining balance of such benefit shall be paid to the deceased Beneficiary's estate; or, if the deceased Beneficiary is one of multiple concurrent Beneficiaries, such remaining benefits shall be paid proportionally to the surviving Beneficiaries.

Section 6.8 Hardships. Upon the application of any Participant, the Compensation Committee, in accordance with its uniform, non-discriminatory policy, may permit such Participant to terminate future deferrals or to withdraw his or her vested Account. A Participant must give a written petition of the termination of his or her Permissible Deferral election at least thirty (30) days prior to the next periodic (for Base Salary) or single sum (for Bonuses) deferral. A Participant must give a written petition of the intent to withdraw the Account at least sixty (60) days (or such shorter time as permitted by the Compensation Committee) prior to the date of withdrawal. No termination or withdrawal shall be made under the provisions of this Section except for the purpose of enabling a Participant to meet immediate needs created by a financial hardship for which the Participant does not have other reasonably available sources of funds, as determined by the Compensation Committee in accordance with uniform rules. The term financial hardship shall include the need for funds to:

meet uninsured medical expenses for the Participant or his or her dependents, meet a significant uninsured casualty loss for the Participant or his or her dependents, and meet other catastrophes of a "sudden and serious nature."

The Compensation Committee may permit a withdrawal of any deferrals. If a withdrawal is permitted, a Participant's deferrals shall be credited at the lesser of (a) the amount as described in Section 4.2; or (b) 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 application for such withdrawal is made, as published in the Wall Street Journal or as determined by the Chief Financial Officer of the Company. Withdrawals shall be distributed in the form of a lump sum as soon as is reasonably convenient.

If a termination of deferrals or a withdrawal is made under this Section, the Participant may not enter into a new Permissible Deferral election for two (2) complete Plan Years after the date of the termination or withdrawal.

Section 6.9 Claims Procedure. The Compensation Committee shall notify a Participant in writing within ninety (90) days of the Participant's written application for benefits of his or her eligibility or non-eligibility for benefits under the Plan. If the Compensation Committee determines that a Participant is not eligible for benefits or full benefits, the notice shall set forth (a) the specific reasons for such denial, (b) a specific reference to the provision of the Plan on which the denial is based, (c) a description of any additional information or material necessary for the claimant to perfect his or her claim, and a description of why it is needed, and (d) an explanation of the Plan's claims review procedure and other appropriate information as to the steps to be taken if the Participant wishes to have his or her claim reviewed. If the Compensation Committee determines that there are special circumstances requiring additional time to make a decision, the Compensation Committee shall notify the Participant of the special circumstances and the date by which a decision is expected to be made, and may extend the time for up to an additional 90-day period. If a Participant is determined by the Compensation Committee to be not eligible for benefits, or if the Participant believes that he or she is entitled to greater or different benefits, he or she shall have the opportunity to have his or her claim reviewed by the Compensation Committee by filing a petition for review with the Compensation Committee within sixty (60) days after receipt by him or her of the notice issued by the Compensation Committee. Said petition shall state the specific reasons the Participant believes he or she is entitled to benefits or greater or different benefits. Within sixty (60) days after receipt by the Compensation Committee of said petition, the Compensation Committee shall afford the Participant (and his or her counsel, if any) an opportunity to present his or her position to the Compensation Committee orally or in writing, and said Participant (or his or her counsel) shall have the right to review the pertinent documents, and the Compensation Committee shall notify the Participant of its decision in writing within said sixty (60) day period, stating specifically the basis of said decision written in a manner calculated to be understood by the Participant and the specific provisions of the Plan on which the decision is based. If, because of the need for a hearing, the sixty (60) day period is not sufficient, the decision may be deferred for up to another sixty (60) day period at the election of the Compensation Committee, but notice of this deferral shall be given to the Participant.

Section 6.10 Alternate Forms of Benefit Distribution. Participants shall have the right to petition the Compensation Committee to request methods of benefit distribution other than those provided to Participants pursuant to this Article 6.

Section 6.11 Distributions on Plan Termination. Notwithstanding anything in this Article 6 to the contrary, if the Plan is terminated, distributions shall be made in accordance with Section 9.2.

Section 6.12 Cessation of Payments upon Reemployment. If a Participant who is receiving semi-monthly installment payments pursuant to Section 6.3.1 or 6.4 (or is due to receive a lump sum payment pursuant to Section 6.3.3 or 6.4) becomes re-employed by an Affiliate, such semi-monthly installments shall cease immediately (or such lump sum payment shall be cancelled) upon re-employment and no payments shall restart until the next termination, voluntarily or involuntarily, of the Participant's employment with all Affiliates, except to the extent, (i) the provisions of Section 6.2.1 or Section 6.2.2 apply, (ii) a Participant is disabled, (iii) the provisions of Section 6.3.2 apply, or (iv) the provisions of Section 6.8 apply. Upon the next termination, voluntarily or involuntarily, of the Participant's employment with all Affiliates, payments shall begin again, not taking into account any period before re-employment during which the Participant received payments for the purpose of determining the Overall Payment Period.

ARTICLE 7 FUNDING

Section 7.1 Source of Benefits. All benefits under the Plan shall be paid when due by the Company out of its assets or from an irrevocable trust established by the Company for that purpose. The Company may, but shall have no obligations to, make such advance provision for the payment of such benefit as the Board may from time to time consider appropriate.

Section 7.2 No Claim on Specific Assets. No Participant shall be deemed to have, by virtue of being a Participant in the Plan, any claim on any specific assets of the Company such that the Participant would be subject to income taxation on his or her benefits under the Plan prior to distribution and the rights of Participants and Beneficiaries to benefits to which they are otherwise entitled under the Plan shall be those of an unsecured general creditor of the Company.

ARTICLE 8 ADMINISTRATION AND FINANCES

Section 8.1 Administration. The Plan shall be administered by the Compensation Committee. The Company shall bear all administrative costs of the Plan other than those specifically charged to a Participant or Beneficiary.

Section 8.2 Powers of the Compensation Committee. In addition to the other powers granted under the Plan, the Compensation Committee shall have all powers necessary to administer the Plan, including, without limitation, powers:

(a) to interpret the provisions of the Plan;

(b) to establish and revise the method of accounting for the Plan and to maintain the Accounts; and

(c) to establish rules for the administration of the Plan and to prescribe any forms required to administer the Plan.

Not in limitation, but in amplification of the foregoing and of the authority conferred upon the Compensation Committee in Section 8.1, the Company specifically intends that the Compensation Committee have the greatest permissible discretion to construe the terms of the Plan and to determine all questions concerning eligibility, participation and benefits. Any such decision made by the Compensation Committee is intended to be subject to the most deferential standard of judicial review. Such standard of review is not to be effected by any real or alleged conflict of interest on the part of the Company or any member of the Compensation Committee.

Section 8.3 Actions of the Compensation Committee. Except as modified by the Company, all determinations, interpretations, rules, and decisions of the Compensation Committee shall be conclusive and binding upon all persons having or claiming to have any interest or right under the Plan.

Section 8.4 Delegation. The Compensation Committee, or any officer designated by the Compensation Committee, shall have the power to delegate specific duties and responsibilities to officers or other employees of the Company or other individuals or entities. Any delegation may be rescinded by the Compensation Committee at any time. Each person or entity to whom a duty or responsibility has been delegated shall be responsible for the exercise of such duty or responsibility and shall not be responsible for any act or failure to act of any other person or entity.

Section 8.5 Reports and Records. The Compensation Committee and those to whom the Compensation Committee has delegated duties under the Plan shall keep records of all their proceedings and actions and shall maintain books of account, records, and other data as shall be necessary for the proper administration of the Plan and for compliance with applicable law.

ARTICLE 9 AMENDMENTS AND TERMINATION

Section 9.1 Amendments. The Company, by action of the Board, may amend the Plan, in whole or in part, at any time and from time to time. Any such amendment shall be filed with the Plan documents. No amendment, however, may be effective to eliminate or reduce the benefits of any retired Participant or the Beneficiary of any deceased Participant then eligible for benefits or the vested portion of the benefits, if any, in any active Participant’s Account immediately before the effective date of such amendment, and each such Account will be credited to the date of such amendment in accordance with Section 4.2. Notwithstanding anything in this Section 9.1 to the contrary, the Compensation Committee may, in its discretion, amend the Plan to reduce the rates set forth in Section 4.2 effective for crediting of Accounts from the date of any such amendment. Notwithstanding anything in this Section 9.1 to the contrary, the Compensation Committee may, in its discretion, (i) amend the Plan to reduce or eliminate the penalty described in Section 6.3.3 and/or the penalty described in Section 6.4.6, in accordance with the provisions of such Section 6.3.3 and/or such Section 6.4.6, (ii) amend the Plan to increase or reduce any assumed interest rate set forth in Section 6.5, in accordance with the provisions of Section 6.5.6, or (iii) amend the Plan to change the date set forth in Section 6.5.3 on which the balance in the Participant’s Account is to be determined for purposes of calculating the amount of each level payment for each Plan Year Payment Period and each Remainder Payment Period, in accordance with the provisions of Section 6.5.6.

Section 9.2 Termination. The Company expects the Plan to be permanent, but necessarily must, and hereby does, reserve the right to terminate the Plan at any time by action

of the Board. In all events, the Plan will be terminated if the existence of a trust causes a federal court to hold that the Plan is "funded" for ERISA purposes, as defined in Section 2.02-4 of the Trust and appeals from that holding are no longer timely or have been exhausted, and the trust is therefore terminated with respect to the Plan. Upon termination of the Plan, all deferrals and Company Contributions will cease and no future deferrals or Company Contributions will be made. Termination of the Plan shall not operate to eliminate or reduce benefits of any retired Participant or the Beneficiary of any deceased Participant then eligible for benefits. Active Participants shall become vested in their accrued benefits to the extent and in the manner provided in Section 9.3 as of the effective date of such termination and each account of an active Participant shall be credited, to the date of distribution of all benefits in each such Account, in accordance with Section 4.2., as it may be amended from time to time pursuant to Section 9.1.

If the Plan is terminated, payments from the Accounts of all Participants and Beneficiaries shall be made as soon as administratively convenient in the form of monthly payments over a five (5) year period; however, the Compensation Committee in its sole discretion may pay the benefits in a lump sum. Notwithstanding the preceding sentence, if the termination occurs because the Plan is held to be "funded" as described in the first paragraph of this Section 9.2, the distribution will be paid in a lump sum not later than ninety (90) days after such termination.

Section 9.3 Accelerated Vesting. Notwithstanding Article 5, upon termination of the Plan a Participant shall vest in Company Contributions according to the following schedule:

Years of Service	Percentage of Company Contributions Vested
Less than 1	None
1	20%
2	40%
3	60%
4	80%
5 or more	100%

Years of Service shall be credited in accordance with Section 5.1.

ARTICLE 10 ACCELERATED VESTING

Section 10.1 Accelerated Vesting. Notwithstanding Article 5, upon a Change in Control as defined in Section 10.2, a Participant shall be fully vested in Company Contributions.

Section 10.2 Change in Control. A Change in Control for any Participant shall occur if there is a Change in Control of the Company as defined in Section 1.01-2 of the Trust or there is a Change in Control of a Participating Subsidiary, as defined in Section 1.01-2 of the Trust, of the Participating Affiliate by whom the Participant is employed.

ARTICLE 11 MISCELLANEOUS

Section 11.1 No Guarantee of Employment. Neither the adoption and maintenance of the Plan nor the execution by the Company of a Permissible Deferral agreement with any Participant shall be deemed to be a contract of employment between the Company and any Participant. Nothing contained herein shall give any Participant the right to be retained in the

employ of the Company or to interfere with the right of the Company to discharge any Participant at any time, nor shall it give the Company the right to require any Participant to remain in its employ or to interfere with the Participant's right to terminate his or her employment at any time.

Section 11.2 Individual Account Plan. If it is determined that the Plan is not an unfunded deferred compensation plan maintained primarily for a select group of management or highly compensated employees as described in Sections 201(2), 301(a)(3) and 401(a)(1) of ERISA, then the Plan is intended to be an individual account plan (other than a money purchase plan) as described in Section 301(a)(8) of ERISA and the vesting schedule set forth in Article 5 shall be replaced by the vesting schedule set forth in Section 9.3.

Section 11.3 Release. Any payment of benefits to or for the benefit of a Participant or a Participant's Beneficiaries that is made in good faith by the Company in accordance with the Company's interpretation of its obligations hereunder, shall be in full satisfaction of all claims against the Company for benefits under this Plan to the extent of such payment.

Section 11.4 Notices. Any notice permitted or required under the Plan shall be in writing and shall be hand delivered or sent, postage prepaid, certified or registered mail with return receipt requested, to the principal office of the Company, if to the Company, or to the address last shown on the records of the Company, if to a Participant or Beneficiary. Any such notice shall be effective as of the date of hand delivery or mailing.

Section 11.5 Non-Alienation. No benefit payable at any time under this Plan shall be subject in any manner to alienation, sale, transfer, assignment, pledge, levy, attachment, or encumbrance of any kind.

Section 11.6 Tax Liability. The Company may direct the trustee of the Trust to withhold from any payment of benefits under the Plan such amounts as the Company determines are reasonably necessary to pay any taxes (and interest thereon) required to be withheld or for which the trustee of the Trust may become liable under applicable law. The Company may also direct the trustee of the Trust to forward to the appropriate taxing authority any amounts required to be paid by the Company or the Trust under the preceding sentence. Any amounts withheld pursuant to this Section 11.6 in excess of the amount of taxes due (and interest thereon) shall be paid to the Participant or Beneficiary upon final determination, as determined by the Company, of such amount. No interest shall be payable by the Company to any Participant or Beneficiary by reason of any amounts withheld pursuant to this Section 11.6.

Section 11.7 Captions. Article and section headings and captions are provided for purposes of reference and convenience only and shall not be relied upon in any way to construe, define, modify, limit, or extend the scope of any provision of the Plan.

Section 11.8 Applicable Law. The Plan and all rights hereunder shall be governed by and construed according to the laws of the State of Missouri, except to the extent such laws are preempted by the laws of the United States of America.

Dated:	June 10, 2002	H&R BLOCK, INC.

/s/ Mark A. Ernst

Mark A. Ernst
President and Chief Executive Officer

Exhibit 10.9

FIRST AMENDMENT
TO THE
H&R BLOCK, INC. EXECUTIVE SURVIVOR PLAN

H&R Block, Inc. (the “Company”) adopted the amended and restated H&R Block, Inc. Executive Survivor Plan (the “Plan”), effective as of January 1, 2001. Section 4.1 of the Plan provides that the Company may amend the Plan from time to time. In accordance with the provisions of that Section, effective July 1, 2002, the Plan is amended as follows:

1. The following definition is added to Article 1 immediately after the definition of “Designated Subsidiary” and immediately before the definition of “Entry Date”:

“**Eligibility Committee**. ‘Eligibility Committee’ means the Chief Executive Officer of the Company, the Chief Financial Officer of the Company, and the senior officer of the Company responsible for human resources.”

2. The definition of “Participant” in Article 1 is amended by (A) deleting the words “or the Affiliate” in clause (i) thereof, and (B) inserting the words “or the Eligibility Committee” immediately after the words “Board of Directors” and immediately before the words “as eligible to” in clause (v) thereof.

3. Section 2.9.1 is amended by deleting clause (e) in its entirety and replacing it with the following new clause (e):

“(e) a change in the Participant’s employment responsibilities, title, compensation, and/or performance such that he or she is no longer a Participant, as defined in Article 1 of the Plan, or selected as eligible to participate in the Plan by the Compensation Committee of the Company’s Board of Directors or the Eligibility Committee,”.

4. Except as modified in this First Amendment, the Plan shall remain in full force and effect, including the Company’s right to amend or terminate the Plan as set forth in Section 4.1 of the Plan.

H&R BLOCK, INC.

Dated: June 10, 2002

By: /s/ Mark A. Ernst

Mark A. Ernst
President and Chief Executive Officer

EXHIBIT 12

H&R BLOCK, INC.
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(AMOUNTS IN THOUSANDS)

	2002	2001	2000	1999	1998
Pretax income from continuing operations (a)	$ 716,840	$ 473,078	$ 412,266	$ 383,541	$ 296,433
FIXED CHARGES:					
Interest expense	116,141	242,551	155,027	69,338	38,899
Interest portion of net rent expense (b)	55,896	52,108	45,274	33,218	28,248
Total fixed charges	172,037	294,659	200,301	102,556	67,147
Earnings before income taxes and fixed charges	$ 888,877	$ 767,737	$ 612,567	$ 486,097	$ 363,580
Ratio of earnings to fixed charges	5.2	2.6	3.1	4.7	5.4

(a) Pretax income from continuing operations is shown with CompuServe Corporation and the Credit Card Segment as Discontinued Operations for all years presented.

(b) One-third of net rent expense is the portion deemed representative of the interest factor.

Exhibit 13

CONSOLIDATED STATEMENTS OF EARNINGS
Amounts in thousands, except per share amounts

	Year Ended April 30		
	2002	2001	2000
REVENUES:			
Service revenues	**$ 2,333,064**	$ 2,179,896	$ 1,831,141
Gain on sale of mortgage loans	**456,958**	244,789	189,607
Interest income	**206,433**	279,833	193,129
Product sales	**127,226**	101,489	64,344
Royalties	**164,615**	149,683	138,903
Other	**29,440**	25,647	8,561
	3,317,736	2,981,337	2,425,685
OPERATING EXPENSES:			
Employee compensation and benefits	**1,308,705**	1,192,294	963,536
Occupancy and equipment	**305,387**	283,181	253,171
Operating interest	**24,629**	125,604	106,349
Other interest	**91,512**	116,947	48,678
Depreciation and amortization	**155,386**	205,608	147,218
Marketing and advertising	**155,729**	110,973	105,369
Supplies, freight and postage	**75,710**	70,440	64,599
Bad debt	**76,804**	84,422	51,719
Other	**408,446**	326,802	282,958
	2,602,308	2,516,271	2,023,597
Operating earnings	**715,428**	465,066	402,088
OTHER INCOME:			
Investment income, net	**3,097**	5,977	9,840
Other, net	**(1,685)**	2,035	338
	1,412	8,012	10,178
Earnings before income taxes	**716,840**	473,078	412,266
Taxes on earnings	**282,435**	196,330	160,371
NET EARNINGS BEFORE CHANGE IN ACCOUNTING PRINCIPLE	**434,405**	276,748	251,895
Cumulative effect of change in accounting principle for derivatives and hedging activities (less applicable income taxes of $2,717)	**-**	4,414	-
NET EARNINGS	**$ 434,405**	$ 281,162	$ 251,895
BASIC NET EARNINGS PER SHARE:			
Net earnings before change in accounting principle	**$ 2.38**	$ 1.50	$ 1.28
Cumulative effect of change in accounting principle	**-**	.03	-
Net earnings	**$ 2.38**	$ 1.53	$ 1.28
DILUTED NET EARNINGS PER SHARE:			
Net earnings before change in accounting principle	**$ 2.31**	$ 1.49	$ 1.27
Cumulative effect of change in accounting principle	**-**	.03	-
Net earnings	**$ 2.31**	$ 1.52	$ 1.27

See notes to consolidated financial statements on pages 52-78.

CONSOLIDATED BALANCE SHEETS
Amounts in thousands, except share and per share amounts

	April 30	
	2002	**2001**
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	**$ 436,145**	$ 187,616
Cash and cash equivalents - restricted	**152,173**	84,197
Marketable securities - available-for-sale	**-**	8,266
Marketable securities - trading	**28,370**	46,158
Receivables from customers, brokers, dealers and clearing organizations, less allowance for doubtful accounts of $1,785 and $1,692	**844,538**	1,310,804
Receivables, less allowance for doubtful accounts of $64,057 and $47,125	**368,345**	365,304
Prepaid expenses and other current assets	**415,572**	260,942
Total current assets	**2,245,143**	2,263,287
OTHER ASSETS		
Investments in available-for-sale marketable securities	**15,260**	31,559
Residual interests in securitizations	**365,371**	238,600
Intangible assets	**383,085**	402,209
Goodwill	**723,856**	649,617
Property and equipment, at cost less accumulated depreciation and amortization of $410,885 and $324,287	**286,500**	288,847
Other	**211,576**	239,586
	$ 4,230,791	$ 4,113,705
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable to customers, brokers and dealers	**$ 903,201**	$ 1,058,000
Accounts payable, accrued expenses and deposits	**410,622**	353,291
Accrued salaries, wages and payroll taxes	**253,401**	221,830
Accrued taxes on earnings	**252,822**	295,599
Current portion of long-term debt	**59,656**	51,763
Total current liabilities	**1,879,702**	1,980,483
LONG-TERM DEBT	**868,387**	870,974
OTHER NONCURRENT LIABILITIES	**113,282**	88,507
COMMITMENTS AND CONTINGENCIES (Note 19)		
STOCKHOLDERS' EQUITY		
Common stock, no par, stated value $.01 per share, authorized 500,000,000 shares	**2,179**	2,179
Convertible preferred stock, no par, stated value $.01 per share, authorized 500,000 shares	**-**	-
Additional paid-in capital	**468,052**	419,957
Accumulated other comprehensive income (loss)	**44,128**	(42,767)
Retained earnings	**1,767,702**	1,449,022
Less cost of common stock in treasury	**(912,641)**	(654,650)
Total stockholders' equity	**1,369,420**	1,173,741
	$ 4,230,791	$ 4,113,705

See notes to consolidated financial statements on pages 52-78.

CONSOLIDATED STATEMENTS OF CASH FLOWS
Amounts in thousands

	Year Ended April 30		
	2002	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net earnings	**$ 434,405**	$ 281,162	$ 251,895
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	**155,386**	205,608	147,218
Provision for bad debt	**76,804**	84,422	51,719
Accretion of acquisition liabilities	**11,700**	11,863	10,641
Provision for deferred taxes on earnings	**30,136**	(38,870)	(30,098)
Net (gain) loss on sale of operating units	**1,666**	(2,040)	14,501
Cumulative effect of change in accounting principle	**-**	(4,414)	-
Net gain on sale of marketable securities	**(423)**	(17,744)	(11,697)
Accretion of residual interests in securitizations	**(50,583)**	(21,824)	(25,176)
Adjustments to fair value of residual interests in securitizations	**30,987**	9,467	14,186
Tax benefit from stock option exercises	**57,809**	2,235	3,736
Changes in assets and liabilities, net of acquisitions:			
Cash and cash equivalents - restricted	**(67,976)**	(51,014)	(33,183)
Receivables from customers, brokers, dealers and clearing organizations	**465,926**	1,544,640	(893,435)
Receivables	**(132,548)**	(480,032)	(416,160)
Mortgage loans held for sale:			
Originations and purchases	**(11,771,688)**	(7,254,552)	(5,967,895)
Sales and principal repayments	**11,780,758**	7,336,659	6,442,094
Marketable securities - trading	**17,788**	(755)	6,899
Prepaid expenses and other current assets	**(179,694)**	(88,515)	(52,551)
Accounts payable to customers, brokers and dealers	**(154,799)**	(1,512,200)	868,012
Accounts payable, accrued expenses and deposits	**57,608**	133,695	10,202
Accrued salaries, wages and payroll taxes	**31,751**	48,901	13,683
Accrued taxes on earnings	**(42,777)**	66,465	68,316
Other, net	**(10,790)**	(4,806)	(19,920)
Net cash provided by operating activities	**741,446**	248,351	452,987
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of available-for-sale securities	**(7,241)**	(10,636)	(14,281)
Maturities of available-for-sale securities	**75,320**	21,524	68,261
Sales of available-for-sale-securities	**23,173**	356,192	211,836
Purchases of property and equipment, net	**(111,775)**	(92,411)	(145,753)
Payments made for business acquisitions, net of cash acquired	**(46,738)**	(21,143)	(971,802)
Proceeds from sale of operating units	**121**	23,200	-
Other, net	**8,107**	(21,969)	1,800
Net cash provided by (used in) investing activities	**(59,033)**	254,757	(849,939)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayments of notes payable	**(10,622,011)**	(18,219,741)	(50,800,661)
Proceeds from issuance of notes payable	**10,622,011**	17,935,944	51,012,519
Proceeds from issuance of long-term debt	**-**	-	495,800
Payments on acquisition debt	**(50,594)**	(68,743)	(4,730)
Dividends paid	**(115,725)**	(108,374)	(105,480)
Payments to acquire treasury shares	**(462,938)**	(222,895)	(50,654)
Proceeds from issuance of common stock	**195,233**	19,550	33,222
Other, net	**140**	2,049	(29,586)
Net cash provided by (used in) financing activities	**(433,884)**	(662,210)	550,430
Net increase (decrease) in cash and cash equivalents	**248,529**	(159,102)	153,478
Cash and cash equivalents at beginning of the year	**187,616**	346,718	193,240
Cash and cash equivalents at end of the year	**$ 436,145**	$ 187,616	$ 346,718
SUPPLEMENTAL CASH FLOW DISCLOSURES:			
Income taxes paid	**$ 236,784**	$ 150,784	$ 122,447
Interest paid	**105,072**	230,448	141,577

See notes to consolidated financial statements on pages 52-78.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Amounts in thousands, except per share amounts

	Common Stock		Convertible Preferred Stock		Additional Paid-in Capital
	Shares	Amount	Shares	Amount	
Balances at April 30, 1999	217,945	$ 2,179	-	$ -	$ 420,658
Net earnings for the year	-	-	-	-	-
Unrealized loss on translation	-	-	-	-	-
Change in net unrealized gain on marketable securities	-	-	-	-	-
Comprehensive income	-	-	-	-	-
Stock options exercised	-	-	-	-	(1,567)
Restricted stock granted	-	-	-	-	200
Stock issued for acquisition	-	-	-	-	1,306
Conversion of Convertible Preferred Stock	-	-	-	-	(3)
Acquisition of treasury shares	-	-	-	-	-
Cash dividends paid - $.538 per share	-	-	-	-	-
Balances at April 30, 2000	217,945	2,179	-	-	420,594
Net earnings for the year	-	-	-	-	-
Unrealized loss on translation	-	-	-	-	-
Change in net unrealized gain on marketable securities	-	-	-	-	-
Comprehensive income	-	-	-	-	-
Stock options exercised	-	-	-	-	(68)
Restricted stock granted	-	-	-	-	(382)
Stock issued for ESPP	-	-	-	-	(187)
Acquisition of treasury shares	-	-	-	-	-
Cash dividends paid - $.5875 per share	-	-	-	-	-
Balances at April 30, 2001	217,945	2,179	-	-	419,957
Net earnings for the year	**-**	**-**	**-**	**-**	**-**
Unrealized loss on translation	**-**	**-**	**-**	**-**	**-**
Change in net unrealized gain on marketable securities	**-**	**-**	**-**	**-**	**-**
Comprehensive income	**-**	**-**	**-**	**-**	**-**
Stock options exercised	**-**	**-**	**-**	**-**	**47,590**
Restricted stock granted	**-**	**-**	**-**	**-**	**237**
Stock issued for ESPP	**-**	**-**	**-**	**-**	**268**
Acquisition of treasury shares	**-**	**-**	**-**	**-**	**-**
Cash dividends paid - $.63 per share	**-**	**-**	**-**	**-**	**-**
Balances at April 30, 2002	**217,945**	**$ 2,179**	**-**	**$ -**	**$ 468,052**

[Additional columns below]

[Continued from above table, first column(s) repeated]

	Accumulated Other Comprehensive Income (loss)	Retained Earnings	Treasury Stock		Total Equity
			Shares	Amount	
Balances at April 30, 1999	$ (23,400)	$ 1,129,819	(22,687)	$ (467,269)	$ 1,061,987
Net earnings for the year	-	251,895	-	-	-
Unrealized loss on translation	(2,647)	-	-	-	-
Change in net unrealized gain on marketable securities	(194)	-	-	-	-
Comprehensive income	-	-	-	-	249,054
Stock options exercised	-	-	2,047	42,268	40,701
Restricted stock granted	-	-	86	1,781	1,981
Stock issued for acquisition	-	-	951	19,694	21,000
Conversion of Convertible Preferred Stock	-	-	1	3	-

Acquisition of treasury shares	-	-	(2,273)	(50,654)	(50,654)
Cash dividends paid - $.538 per share	-	(105,480)	-	-	(105,480)
Balances at April 30, 2000	(26,241)	1,276,234	(21,875)	(454,177)	1,218,589
Net earnings for the year	-	281,162	-	-	-
Unrealized loss on translation	(11,864)	-	-	-	-
Change in net unrealized gain on marketable securities	(4,662)	-	-	-	-
Comprehensive income	-	-	-	-	264,636
Stock options exercised	-	-	1,001	19,121	19,053
Restricted stock granted	-	-	114	2,252	1,870
Stock issued for ESPP	-	-	55	1,049	862
Acquisition of treasury shares	-	-	(13,632)	(222,895)	(222,895)
Cash dividends paid - $.5875 per share	-	(108,374)	-	-	(108,374)
Balances at April 30, 2001	(42,767)	1,449,022	(34,337)	(654,650)	1,173,741
Net earnings for the year	**-**	**434,405**	**-**	**-**	-
Unrealized loss on translation	**(875)**	**-**	**-**	**-**	-
Change in net unrealized gain on marketable securities	**87,770**	**-**	**-**	**-**	-
Comprehensive income	**-**	**-**	**-**	**-**	**521,300**
Stock options exercised	**-**	**-**	**9,662**	**202,500**	**250,090**
Restricted stock granted	**-**	**-**	**17**	**400**	**637**
Stock issued for ESPP	**-**	**-**	**97**	**2,047**	**2,315**
Acquisition of treasury shares	**-**	**-**	**(12,259)**	**(462,938)**	**(462,938)**
Cash dividends paid - $.63 per share	**-**	**(115,725)**	**-**	**-**	**(115,725)**
Balances at April 30, 2002	**$ 44,128**	**$ 1,767,702**	**(36,820)**	**$ (912,641)**	**$ 1,369,420**

See notes to consolidated financial statements on pages 52-78.

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

GENERAL

H&R Block, Inc. is a diversified company with subsidiaries that deliver tax services and financial advice, investment and mortgage products and services, and business, accounting and consulting services. For nearly 50 years, the Company has been developing relationships with millions of tax clients and its strategy is to expand on these relationships.

H&R BLOCK'S MISSION
"To help our clients achieve their financial objectives by serving as their tax and financial partner."

H&R BLOCK'S VISION
"To be the world's leading provider of financial services through tax and accounting based advisory relationships."

Overview

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

U.S. tax operations: This segment primarily consists of the Company's tax businesses - which served 17.1 million and 16.9 million taxpayers in its retail tax offices in fiscal year 2002 and 2001, respectively - more than any other tax services company.

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.

Mortgage operations: This segment is primarily engaged in the origination, servicing, and sale of a broad range of mortgage products.

Investment services: This segment is primarily engaged in offering investment advice and related financial services and securities products.

Business services: This segment is primarily engaged in providing accounting, tax, consulting, payroll, employee benefits and capital markets services to business clients and tax, estate planning, financial planning, wealth management and insurance services to individuals.

New accounting standards

In May 2001, the Company elected early adoption of Statement of Financial Accounting Standards No. 141, "Business Combinations," and No. 142, "Goodwill and Other Intangible Assets" ("SFAS 141" and "SFAS 142"). SFAS 141 addresses financial accounting and reporting for business combinations and replaces APB Opinion No. 16, "Business Combinations" ("APB 16"). SFAS 141 no longer allows the pooling of interests method of accounting for acquisitions, provides new recognition criteria for intangible assets and carries forward without reconsideration the guidance in APB 16 related to the application of the purchase method of accounting. SFAS 142 addresses financial accounting and reporting for acquired goodwill and other intangible assets and replaces APB Opinion No. 17, "Intangible Assets." SFAS 142 addresses how intangible assets should be accounted for upon their acquisition and after they have been initially recognized in the financial statements. Additionally, the new standard provides specific guidance on measuring goodwill for impairment at least annually. The adoption of SFAS 141 and 142 has had a significant effect on the consolidated statement of earnings for fiscal year 2002, due to the cessation of amortization of goodwill beginning May 1, 2001.

Had the provisions of SFAS 141 and 142 been applied for the years ended April 30, 2001 and 2000, the Company's net earnings and net earnings per basic and diluted share would have been as follows:

	Year Ended April 30					
	2001			2000		
	Net earnings	Basic per share	Diluted per share	Net earnings	Basic per share	Diluted per share
Net earnings:						
As reported	$281,162	$1.53	$1.52	$251,895	$1.28	$1.27
Add amortization (net of tax):						
Goodwill	29,509	.16	.16	22,859	.12	.12
Assembled workforce	15,733	.09	.09	7,813	.04	.04
Management infrastructure	902	-	-	677	-	-
Trade name	1,722	.01	.01	1,291	.01	.01
Adjusted net earnings	$329,028	$1.79	$1.78	$284,535	$1.45	$1.44

In May 2001, the Company adopted Emerging Issues Task Force Issue 99-20, "Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets" ("EITF 99-20"). EITF 99-20 addresses how the holder of beneficial interests should recognize cash flows on the date of a securitization transaction, how interest income is recognized over the life of the interests and when securities must be written down to fair value due to other than temporary impairments. The adoption of EITF 99-20 did not have a material impact on the consolidated financial statements.

On February 1, 2002, the Company adopted Emerging Issues Task Force Issue No. 01-9, "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)" ("EITF 01-9"). EITF 01-9 addresses sales incentives such as discounts, coupons or rebates offered to customers of retailers or other distributors and the income statement classifications of these items. Based on EITF 01-9, these items are recorded as a reduction of revenues. The Company has historically recorded these items as expenses in its U.S. and international tax operations. The adoption of EITF 01-9 had no impact on net earnings. All years presented have been restated to reflect the adoption of this guidance. Revenues and expenses were reduced by $43.5 million, $32.6 million and $35.3 million for fiscal years 2002, 2001 and 2000, respectively, due to the adoption of EITF 01-9.

On February 1, 2002, the Company adopted Emerging Issues Task Force Issue No. 01-14, "Income Statement Characterization of Reimbursements Received for 'Out-of-Pocket' Expenses Incurred" ("EITF 01-14"). EITF 01-14 establishes requirements that must be met to record out-of-pocket expenses as either net in revenues or as expenses. The Company has out-of-pocket expenses associated with its Business services segment and has historically recorded them net in revenues. Based on EITF 01-14, the Company now records these as gross revenues and expenses. There is no impact to net earnings as a result of adoption of EITF 01-14. All years presented have been restated to reflect the adoption of this guidance. Revenues and expenses were increased by $17.8 million, $12.3 million and $9.1 million for fiscal years 2002, 2001 and 2000, respectively, due to the adoption of EITF 01-14.

In August 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"), effective for the Company's fiscal year beginning May 1, 2002. SFAS 144 establishes a single accounting model, based on the framework established in SFAS 121, for long-lived assets to be disposed of by sale. The adoption of SFAS 144 will not have a material effect on the consolidated financial statements.

RESULTS OF OPERATIONS

The analysis that follows should be read in conjunction with the tables below and the consolidated statements of earnings. All amounts in the following tables are in thousands, except as noted.

On May 1, 2001, the Company adopted a new methodology for allocation of corporate services and support costs to business units. The change was made to more accurately reflect the costs attributable to each business segment. Fiscal year 2001 segment results have been adjusted to reflect this allocation methodology. Fiscal year 2000 has not been adjusted, as the effects of the new methodology were not material to segment pretax earnings or operating margins.

CONSOLIDATED H&R BLOCK, INC.

	Year Ended April 30		
	2002	**2001**	**2000**
REVENUES:			
U.S. tax operations	**$ 1,830,752**	$ 1,622,636	$ 1,397,475
International tax operations	**78,710**	78,469	79,814
Mortgage operations	**734,890**	415,802	355,429
Investment services	**250,685**	472,425	268,376
Business services	**416,926**	386,168	319,923
Corporate operations	**5,773**	5,837	4,668
	$ 3,317,736	$ 2,981,337	$ 2,425,685
EARNINGS (LOSS):			
U.S. tax operations	**$ 533,468**	$ 434,067	$ 319,992
International tax operations	**7,093**	6,024	4,869
Mortgage operations	**339,388**	137,992	88,574
Investment services	**(54,862)**	9,298	41,226
Business services	**22,716**	15,953	17,111
Corporate operations	**(56,133)**	(30,899)	(22,476)
Interest expense–acquisition debt	**(79,002)**	(98,759)	(56,118)
Investment income, net	**3,097**	5,977	9,840
Intercompany interest	**1,075**	(6,575)	9,248
Earnings before income taxes	**716,840**	473,078	412,266
Taxes on earnings	**282,435**	196,330	160,371
Net earnings before change in accounting principle	**434,405**	276,748	251,895
Cumulative effect of change in accounting principle	**-**	4,414	-
Net earnings	**$ 434,405**	$ 281,162	$ 251,895
Basic net earnings per share	**$ 2.38**	$ 1.53	$ 1.28
Diluted net earnings per share	**$ 2.31**	$ 1.52	$ 1.27

Fiscal 2002 compared to fiscal 2001

Consolidated revenues for fiscal year 2002 increased 11.3% primarily due to increases in Mortgage operations and U.S. tax operations. Mortgage operations and U.S. tax operations increased revenues by $319.1 million and $208.1 million, respectively. Also contributing to the increase was Business services, which reported an 8.0% increase over the prior year. These increases were partially offset by a decline in Investment services revenues of $221.7 million.

The Company reported pretax earnings of $716.8 million for fiscal year 2002 compared to $473.1 million in the prior year. The improvement over the prior year is primarily from the Mortgage operations segment that reported earnings of $339.4 million, a $201.4 million improvement over last year. In addition, U.S. tax operations reported an improvement of 22.9% or $99.4 million over the prior year. Somewhat offsetting these improvements was a decline of $64.2 million from fiscal 2001 for Investment services. In addition, the adoption of SFAS 141 and 142 positively impacted the year-over-year pretax earnings increase by $62.4 million.

The effective income tax rate decreased from 41.5% last year to 39.4% this year. The decrease in the effective tax rate is primarily due to tax planning initiatives and the reduction in non-deductible goodwill and other intangible asset amortization related to the adoption of SFAS 141 and 142.

Net earnings were $434.4 million, or $2.31 per diluted share compared to earnings of $281.2 million, or $1.52 per diluted share for the year ended April 30, 2001. The adoption of SFAS 141 and 142 improved net earnings over the prior year by $47.9 million, or $.26 per diluted share.

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 $165.2 million to $952.4 million compared to $787.2 million in the prior year. Management utilizes EBITDA to evaluate the performance of its operating segments as an approximate measure of cash flow generation. The Company’s operations have not historically been capital intensive, and EBITDA also removes the effects of purchase accounting. The calculation of EBITDA may not be comparable to the calculation of EBITDA by other companies, and it is a non-GAAP financial measure.

In addition, the Company continues to measure its performance based on the calculation of earnings excluding the after-tax impact of amortization of acquired intangible assets. Net earnings, excluding the after-tax impact of this expense, were $474.3 million, or $2.52 per diluted share in fiscal 2002, compared to $366.6 million, or $1.98 per diluted share last year. This calculation is a non-GAAP financial measure.

Fiscal 2001 compared to fiscal 2000

Consolidated revenues for fiscal year 2001 increased 22.9% to $3.0 billion compared to $2.4 billion in the previous year due primarily to increases in U.S. tax operations, Mortgage operations and Investment services. The increase related to Investment services is due to the inclusion of a full twelve months of operations in fiscal 2001 compared to only five months in fiscal 2000.

Pretax earnings of $473.1 million increased 14.8% compared to fiscal 2000 due to improved performance within U.S. tax operations and Mortgage operations, which were partially offset by lesser performance within Investment services and higher interest expense on acquisition debt.

The effective tax rate increased from 38.9% to 41.5% in fiscal 2001 as a result of a full year of non-deductible intangible asset and goodwill amortization resulting from the acquisition of OLDE Financial Corporation, compared with five months of amortization in fiscal year 2000.

Net earnings increased 11.6% to $281.2 million, or $1.52 per diluted share, from $251.9 million, or $1.27 per diluted share in fiscal 2000. The Company’s fiscal 2001 results include two one-time items - the implementation of SFAS 133, an additional $.03 per diluted share, and an accrual for settlement of litigation brought against the Company, a reduction of $.05 per diluted share. Excluding the effects of these one-time items, diluted earnings per share was $1.54, a 21.3% increase over fiscal 2000.

The Company’s performance as measured by EBITDA improved $189.2 million to $787.2 million compared to $598.0 million in fiscal 2000. Net earnings from continuing operations before change in accounting principle, excluding the after-tax impact of amortization of acquired intangible assets, were $362.2 million, or $1.96 per diluted share in 2001, compared to $304.4 million, or $1.54 per diluted share in the prior year, increases of 19.0% and 27.3%, respectively.

U.S. TAX OPERATIONS

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 includes the Company’s tax preparation software – TaxCut® from H&R Block, other personal productivity software, online tax preparation through a tax professional (whereby the client fills out an online tax organizer and sends it to a tax professional for preparation), online do-it-yourself tax preparation, online professional tax review and online tax advice through the hrblock.com website.

In addition, the Company offers Refund Anticipation Loan (“RAL”) products to its tax clients through a relationship with Household Bank, f.s.b. (“Household”). The Company buys participation interests in RALs made by Household (49.9% and 25.0% for RALs facilitated at company-owned offices and in major franchise offices, respectively). Revenue from participation is calculated as the Company’s percentage participation multiplied by the fee the customer pays Household for the RAL. The fee the customer pays for the RAL is set by Household and is based on the dollar amount of the RAL.

This tax season, U.S. tax operations began offering new products to bring additional value to H&R Block’s client base. For the first time, tax offices offered a new RAL product – an “instant RAL.” With an “instant RAL,” clients who qualify receive a check for loan proceeds upon the completion of their tax return and do not need to return to the office a second time to pick up their check. In its initial tax season, 193 thousand “instant RALs” were provided. In addition, tax offices offered a new product to those clients whose tax returns reflect a balance due the Internal Revenue Service (“IRS”). Clients who qualify can receive a line of credit from Household that can be used to pay a balance due the IRS. This line of credit has “same as cash” terms for 90 days. Unlike the traditional RAL products, the Company does not have a participation interest in these lines of credit. Twenty-two thousand of these balance due products were provided in fiscal 2002.

The e-commerce business also offered new tax and advice products to its clients. This year, both software and online users had the opportunity to have an H&R Block tax professional review their return and provide feedback to them prior to filing. In addition, all software and online clients had the opportunity to open an Express IRA account and to receive a free financial plan through H&R Block Financial Advisors, Inc.

	Year Ended April 30		
U.S. Tax Operations - Operating Statistics	**2002**	**2001**	**2000**
(in 000s except average fee and offices)			
Tax returns prepared:			
Company-owned offices	**10,431**	10,275	10,230
Franchise offices	**6,468**	6,167	6,046
	16,899	16,442	16,276
Clients served:			
Company-owned offices	**10,513**	10,425	10,479
Franchise offices	**6,635**	6,458	6,454
E-commerce*	**1,489**	1,264	821
	18,637	18,147	17,754
Tax returns filed electronically:			
Company-owned offices	**9,057**	8,635	8,292
Franchise offices	**5,222**	4,693	4,300
E-commerce*	**1,361**	1,196	817
	15,640	14,524	13,409
Average fee per client served (in offices):			
Company-owned	**$ 129.61**	$ 118.19	$ 106.08
Franchise offices	**109.51**	101.11	93.80
	$ 121.83	$ 111.65	$ 101.40
Offices:			
Company-owned	**5,017**	5,060	5,162
Franchise	**3,998**	4,012	4,048
	9,015	9,072	9,210

* *Includes on-line completed and paid returns and e-filings for software clients.*

U.S. Tax Operations - Financial Results	Year Ended April 30 2002	2001	2000
Tax preparation and related fees	**$ 1,364,673**	$ 1,237,622	$ 1,108,666
Royalties	**154,780**	140,146	128,870
RAL participation fees	**159,965**	133,710	89,761
Software sales	**54,301**	44,138	26,161
Other	**97,033**	67,020	44,017
Total revenues	**1,830,752**	1,622,636	1,397,475
Compensation and benefits	**598,355**	561,962	517,968
Occupancy and equipment	**186,998**	172,572	173,656
Depreciation and amortization	**39,871**	55,346	55,814
Cost of software sales	**19,425**	17,549	12,202
Bad debt	**38,235**	55,391	32,540
Supplies, freight and postage	**35,989**	32,520	34,806
Other	**145,525**	121,478	137,643
Allocated corporate and shared costs	**232,886**	171,751	112,854
Total expenses	**1,297,284**	1,188,569	1,077,483
Pretax earnings	**$ 533,468**	$ 434,067	$ 319,992
Operating margin	**29.1%**	26.8%	22.9%
EBITDA	**$ 592,726**	$ 503,958	$ 386,515

Fiscal 2002 compared to fiscal 2001

Tax preparation and related fees generated by company-owned offices increased 10.3% to $1.4 billion during fiscal year 2002 compared to fiscal year 2001. This increase is primarily attributable to a 1.5% increase in returns prepared in company-owned offices combined with the 9.7% increase in the average fee on those returns. The average fee earned during 2002 was $129.61 compared to $118.19 earned last year. The average fee benefited from the first time inclusion of a federal rebate credit form, increased usage of the child tax credit form and other overall increases in client complexity.

Royalties from franchises of $154.8 million increased proportionately with the increase in total tax preparation and related fees generated from company-owned offices. Franchise offices experienced a 4.9% increase in tax returns prepared to 6.5 million during fiscal 2002 compared to last year. The average fee in franchise offices increased 8.3% to $109.51 as compared to the prior year.

The total number of clients served in company-owned and franchise offices and in e-commerce operations was 18.6 million compared to 18.1 million in fiscal 2001. The average fee per client served was $121.83, up 9.1% over the prior year.

Revenues from participation in RALs increased $26.3 million, or 19.6%, to $160.0 million compared to the prior year. This increase is attributable to a 16.6% increase in the number of RALs in which the Company participated to 4.7 million and a 2.6% increase in pricing. The increased price was driven by an increase in the average refund amount and favorable changes in product mix resulting in a gross revenue per RAL of $33.67, which is up 2.8% over last year.

Software revenues increased 23.0% over last year to $54.3 million. The increase is primarily due to an increase in the number of units sold and an increase in electronic filing charges. Software units sold increased 6.6%, from 2.9 million to 3.0 million units, primarily due to TaxCut State, TaxCut Home & Business and legal products.

During the tax season, revenues from the Company’s e-commerce initiatives improved over the prior year with increases in the number of “Online Tax Preparation” (“OTP”), “Professional Tax Service” (“PTS”) and “Review” clients. Revenues from these initiatives are included in other revenues.

In addition, revenues of $44.4 million from the Peace of Mind warranty program, which increased $10.9 million, helped drive the increase in other revenues due to the increase in the number of warranties sold compared to last year. The increase in the number of warranties sold is due to both an increase in the number of returns prepared, as well as an increase in the percent of clients that purchased the warranty from 21.9% in the prior year, to 26.6% in fiscal 2002.

Total expenses increased 9.1% to $1.3 billion during the year ended April 30, 2002 compared to the year ended April 30, 2001. This increase is due to a 35.6% increase in allocated and shared costs primarily related to marketing and technology development, which increased $39.2 million and $16.8 million, respectively. The higher marketing costs are due to the Company's increased advertising initiatives this year. In addition, compensation and benefits and occupancy and equipment increased as a direct result of the increase in revenues. Offsetting these increases was lower bad debt expense associated with participation in RALs which declined $15.2 million to $9.4 million due to a more favorable collection rate in the current year. A problem with the IRS debt indicator last tax season increased bad debt expense in fiscal 2001. The IRS debt indicator identifies outstanding debts owed by the borrower to the IRS or other government entities. In addition, depreciation and amortization expense decreased by 28.0% to $39.9 million primarily due to lower goodwill amortization of $11.0 million related to the adoption of SFAS No. 141 and 142 and certain assets becoming fully depreciated at the end of the prior fiscal year.

Pretax earnings for fiscal year 2002 were $533.5 million, an increase of 22.9% compared to $434.1 million for fiscal year 2001. The segment's operating margin improved to 29.1% in fiscal 2002 compared to 26.8% in fiscal 2001.

Fiscal 2001 compared to fiscal 2000

Tax preparation and related fees increased 11.6% to $1.2 billion during fiscal year 2001 compared to fiscal year 2000. This increase is primarily due to a .4% increase in tax returns prepared in company-owned offices combined with an 11.4% increase in the average fee on those returns. The increase in the average fee was due to a planned price increase, a shift in customer mix to those with more complex returns and the reduction of price discounting at the point of sale.

The number of clients served by company-owned operations increased 3.4% to 11.7 million due principally to increases in e-commerce clients. In addition, the number of tax returns filed electronically increased 7.9% in company-owned operations, resulting in the electronic filing of 84.1% of all returns processed in company-owned operations.

Royalties from franchises of $140.1 million increased 8.8% during fiscal year 2001 compared to fiscal year 2000. Franchise offices experienced a 2.0% increase in tax returns prepared to 6.2 million during fiscal 2001 compared to the prior year. The average fee earned during fiscal 2001 was $101.11, an increase of 7.8% compared to the prior year.

Revenues from participations in RALs increased $43.9 million over fiscal year 2000. This increase is a result of both increases in the average revenue per RAL by 43.9% and the number of RALs by 2.7%. 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.

Also contributing to the increase in revenues were software sales, which increased 68.7% due mainly to a change in our pricing strategy that lowered our retail price per federal unit, but included an additional fee for state products.

Pretax earnings increased 35.7% to $434.1 million compared to $320.0 million in fiscal 2000. The increase is largely due to the increase in revenues as well as effective expense control. As a result of expense control, the segment's operating margin improved to 26.8% in fiscal 2001 compared to 22.9% in fiscal 2000.

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, Overseas operations include company-owned and franchise offices in eight countries that prepare U.S. tax returns for U.S. citizens living abroad. This segment served 2.3 million taxpayers in fiscal 2002 and 2001. Tax-related service revenues include fees from company-owned tax offices and royalties from franchise offices.

The Company's operations in this segment are transacted in the local currencies of the countries in which it operates, therefore the results can be affected by the translation into U.S. dollars. The continued strength of the U.S. dollar during the year had the impact of lowering reported revenues and reducing earnings and losses.

International Tax Operations - Financial Results	Year Ended April 30 2002	2001	2000
Canada	**$ 55,753**	$ 56,075	$ 59,398
Australia	**17,701**	17,939	17,573
United Kingdom	**1,112**	1,763	1,595
Overseas	**4,144**	2,692	1,248
Total revenues	**78,710**	78,469	79,814
Canada	**7,728**	5,556	3,291
Australia	**2,912**	3,472	3,189
United Kingdom	**(2,536)**	(1,602)	(1,958)
Overseas	**1,682**	846	347
Allocated corporate and shared costs	**(2,693)**	(2,248)	–
Pretax earnings	**$ 7,093**	$ 6,024	$ 4,869
EBITDA	**$ 11,947**	$ 11,453	$ 10,363

Fiscal 2002 compared to fiscal 2001

International revenues totaled $78.7 million in fiscal 2002 compared to $78.5 million last year. Overseas revenues improved by 53.9% primarily from strong revenues in Puerto Rico. The increase was partially offset by unfavorable currency exchange rates in Australia and Canada.

Pretax earnings increased 17.7% to $7.1 million from $6.0 million last year.

The improvement in pretax earnings for Canada of 39.1% is primarily attributed to lower real estate and occupancy costs, lower bad debt expense and other cost control. Although revenue in local currency increased compared to last year, the number of regular and discounted tax returns prepared declined 1.8%.

Australian results were negatively affected by an unfavorable currency exchange rate, as well as additional costs attributed to the opening of thirteen new offices in July 2001. The number of tax returns prepared remained constant with the prior year.

The United Kingdom's pretax loss increased by 58.3% to $2.5 million compared to last year, driven primarily by business restructuring and the write-off of intangible assets of $800 thousand.

The improvement in pretax earnings for Overseas is attributed to a 28.4% increase in tax returns prepared, primarily in Puerto Rico.

Fiscal 2001 compared to fiscal 2000

International revenues decreased by 1.7% to $78.5 million from $79.8 million in fiscal year 2000. The decrease was driven primarily by unfavorable changes in currency exchange rates and management's decision to reduce the non-profitable early discounted return business in Canada.

Pretax earnings increased 23.7% to $6.0 million from $4.9 million in fiscal 2000, in spite of the unfavorable changes in currency exchange rates.

The improved performance in Canada is primarily attributable to business management and effective cost control mainly in marketing, labor and supplies.

The Australian results were negatively affected by the unfavorable change in the currency exchange rates as the pretax results improved by 26.6% in Australian currency. These results were driven primarily by a 6.7% increase in the number of returns processed.

The United Kingdom pretax loss decreased by 18.2% primarily reflecting ongoing efforts to close non-profitable offices while increasing business volume.

The Overseas improvement of 143.8% is attributable to a 51% increase in return volume, primarily in Puerto Rico, as a child tax credit program was introduced in fiscal 2001.

MORTGAGE OPERATIONS

Through Option One Mortgage Corporation and H&R Block Mortgage Corporation, this segment offers a wide range of home mortgage products. This segment is primarily engaged in the origination, servicing and sale of nonconforming and conforming mortgage loans. This segment 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 some H&R Block Financial Advisors branch offices and H&R Block Mortgage Corporation retail offices.

A primary source of revenue for this segment is the recognition of gains on sales of mortgage loans. This segment also holds residual interests in securitized mortgage loans in which cash flows are received over the life of the loans. The subsequent securitization of these residual interests in the form of a net interest margin bond (“NIM”) results in the receipt of a substantial portion of the cash from the residual at the closing of the NIM transaction, rather than over the actual life of the loans.

During fiscal 2002, the Company’s residual interests performed better than expected primarily due to lower interest rates, as well as lower loan losses and prepayments to date than originally projected in the valuation models. The lower rates reduced the interest payments to the bondholders, thereby allowing the bondholders and residual interest holders to receive cash related to principal and interest payments, respectively, earlier than expected in the valuation models. As a result of these items and in accordance with Statement of Financial Accounting Standards No. 115, “Accounting for Certain Investments in Debt and Equity Securities,” the Company recorded pretax mark-to-market write-up adjustments in the fair value of its residual interest of $151.1 million during fiscal 2002. These write-ups are recorded, net of deferred taxes, in other comprehensive income and are then accreted into income throughout the remaining life of those residual interests. Future changes in interest rates or other assumptions could cause additional adjustments to the fair value of the residual interests and would cause changes to the accretion of these residual interests in future periods.

One of the Company’s core strategic objectives is creating a financial partnership with its tax clients through delivery of advice, coupled with the products and services needed to act on that advice. The Company’s initiative to serve the mortgage needs of its tax clients through its retail mortgage operations resulted in 43.2% of all retail loans, and 7.3% of all loans originated during fiscal year 2002, coming from H&R Block tax clients, compared to 29.4% and 5.0%, respectively, in fiscal year 2001.

Management utilizes operating profit margin to evaluate this segment’s performance. Operating profit margin is defined as pretax earnings before goodwill amortization divided by volume of loans originated.

	Year Ended April 30		
Mortgage Operations - Operating Statistics	**2002**	**2001**	**2000**
(in 000s except # of loans originated and average servicing portfolio)			
# of loans originated:			
Wholesale	**74,208**	49,805	47,390
Retail	**15,125**	10,254	6,702
Total	**89,333**	60,059	54,092
Volume of loans originated:			
Wholesale	**$ 9,457,331**	$ 5,289,715	$ 4,903,459
Retail	**1,995,842**	1,235,186	794,202
Total	**$ 11,453,173**	$ 6,524,901	$ 5,697,661
Loan sales	**$ 11,440,190**	$ 6,009,544	$ 6,080,162
# of loans serviced	**209.6**	173.9	114.4
Average servicing portfolio (billions)	**$ 19.9**	$ 15.9	$ 8.8

Mortgage Operations - Financial Results	Year Ended April 30 2002	2001	2000
Gain on sale of mortgage loans	**$ 456,958**	$ 244,789	$ 189,607
Loan servicing	**147,162**	110,222	62,510
Interest income	**127,860**	57,517	102,156
Other	**2,910**	3,274	1,156
Total revenues	**734,890**	415,802	355,429
Compensation and benefits	**181,630**	128,683	103,049
Variable servicing and processing	**86,146**	34,620	20,338
Occupancy and equipment	**30,700**	23,683	15,462
Interest	**4,955**	13,727	56,988
Bad debt	**25,442**	16,153	8,808
Amortization of acquisition intangibles	**–**	13,577	13,760
Other	**63,509**	45,465	48,450
Allocated corporate and shared costs	**3,120**	1,902	–
Total expenses	**395,502**	277,810	266,855
Pretax earnings	**$ 339,388**	$ 137,992	$ 88,574
Operating profit margin*	**2.96%**	2.32%	1.80%
EBITDA	**$ 354,141**	$ 160,805	$ 108,885

** Operating profit margin is pretax earnings before goodwill amortization divided by volume of loans originated.*

Fiscal 2002 compared to fiscal 2001

Revenues increased by $319.1 million or 76.7%, to $734.9 million, for the year ended April 30, 2002 compared to the previous year. The increase is primarily due to an increase in production volume, higher interest income, a favorable secondary market environment and a larger servicing portfolio.

Revenues related to the sale of mortgage loans increased by $212.2 million or 86.7% to $457.0 million over the prior year resulting from a significant increase in loan origination volume and better pricing execution on mortgage loan sales. During fiscal year 2002, the Company’s loan origination volume increased 75.5% over last year. The increase in loan production is a result of an increase in the average loan size, an increase in the size of the sales force, an improvement in the closing ratio and to a lesser extent, the declining interest rate environment. The average loan size increased to $128 thousand from $109 thousand in fiscal 2001 and the closing ratio improved to 50.3% from 44.9% in the prior year. The total execution price for fiscal year 2002 was 4.30% compared to 3.71% for last year. The execution price is defined as the total premium received divided by the total balance of loans sold. The better execution price is partially attributable to the declining interest rate environment that has the effect of widening spreads on mortgage loan sales, as well as better structuring of the deals. Somewhat offsetting the increase in the gain on sale were losses of $31.0 million that were recorded in 2002 related to adverse changes in the timing and amount of cash flows on certain residual interests.

Servicing revenues increased $36.9 million to $147.2 million for the year ended April 30, 2002 as compared to the same period last year. The increase reflects a higher average loan servicing portfolio balance. The average servicing portfolio for the twelve-month period increased 25.2% compared to the same period last year.

Interest income for the year ended April 30, 2002 was $127.9 million, an increase of $70.3 million or 122.3% over the prior year. This increase is primarily the result of the declining interest rate environment, which improves the excess retained interest spread earned. The excess retained interest spread for fiscal year 2002 was 5.58% compared to 2.65% for last year. Also contributing to the increase in interest income is higher accretion income on residual interests during fiscal year 2002.

Pretax earnings increased $201.4 million or 146.0%, to $339.4 million for the year ended April 30, 2002. The improved performance is primarily due to the increase in revenues as discussed above. In addition to higher loan volumes, improved closing ratios and focus on operating efficiencies helped drive a decline in the net cost of origination. The increase in compensation and benefits is due to an

increase in the number of employees supporting the increase in volumes. The increase in variable servicing and processing expense is due to the increase in the size of the servicing portfolio and a $11.6 million write-down of mortgage servicing rights (“MSRs”) and other servicing related assets recorded in fiscal 2002 to reflect a change in the assumptions underlying the related loan portfolios. The year ended April 30, 2002 also benefited by $13.6 million in reduced goodwill amortization compared to the prior year from the adoption of SFAS 141 and 142.

Fiscal 2001 compared to fiscal 2000

Revenues increased 17.0% to $415.8 million in fiscal year 2001 compared with fiscal 2000. The increase was primarily due to an increase in production volume, a favorable secondary market environment and a larger servicing portfolio, which was partially offset by lower interest income.

Revenues related to the sale of mortgage loans increased $55.2 million over fiscal 2000 resulting from favorable secondary market pricing on mortgage loan sales. During fiscal 2001, the Company originated $6.5 billion in mortgage loans compared to $5.7 billion in fiscal year 2000. The total execution price representing gain on sale of mortgage loans for the fiscal year ended April 30, 2001 was 3.71% compared to 3.73% for the fiscal year ended April 30, 2000.

Servicing revenues increased 76.3% to $110.2 million over fiscal 2000. The increase was principally attributable to a higher average loan servicing portfolio balance, increased servicing operations efficiencies and an increase in the collection of borrower late fees. The average loan servicing portfolio for the year of $15.9 billion compared to $8.8 billion in fiscal 2000. These increases in revenues were partially offset by the winding down of certain mortgage activities during fiscal year 2001.

Pretax earnings increased $49.4 million or 55.8% to $138.0 million for the year ended April 30, 2001. The improved performance was primarily due to the increased revenues discussed above. The decrease in both interest income and interest expense was a result of a move to off-balance sheet arrangements for the funding of mortgage loans. Utilizing the off-balance sheet arrangements, the Company essentially no longer incurs short-term borrowings to fund its mortgage loans. Also see Mortgage operations discussion in the Financial Condition section which discusses the off-balance sheet arrangements.

INVESTMENT SERVICES

This segment is primarily engaged in offering investment advice and services through H&R Block Financial Advisors, Inc. (“HRBFA”), a full-service securities broker. Financial planning, investment advice, related financial services and securities products are offered through approximately 1,600 financial advisors at over 600 branch offices located throughout the United States. Some HRBFA offices are co-located with tax and mortgage offices to offer customers one location for their financial service needs.

The Company’s Express IRA product allows clients to use all or part of their income tax refund to fund an IRA account. The Express IRA is funded initially with an FDIC insured money market fund. Clients then have the option of moving the funds to an HRBFA brokerage account, where they can receive advice about financial planning and other financial vehicles including mutual funds, stocks, bonds and annuities. During the 2002 tax season, Express IRA was launched in all tax services regions whereas in the 2001 tax season, this product was only offered in a portion of the country. One hundred and twenty-nine thousand five hundred and seventy-six Express IRA accounts were opened during fiscal 2002. Another key cross-organizational initiative is the creation and testing of the Tax Professional / Financial Advisor (“TPFA”) program, whereby tax professionals are trained and become licensed financial advisors in order to provide clients with financial advice. In fiscal 2001, the pilot year, 430 TPFAs generated 4,846 investment-related accounts (accounts opened). In fiscal 2002, 654 TPFAs have helped clients open 6,160 investment-related accounts.

Several other new products were introduced or expanded during fiscal year 2002. Annuities were added to the product line in January 2001. The Company currently conducts annuity business in twenty-one states, but is licensed in forty states, and will continue to add additional states to distribute the product. In the fall of 2000, the Company began offering online accounts to its customers. The number of online trades represents 8.5% of total trades for the year ended April 30, 2002. Accounts with cash management features including an ATM/Check card were offered for the first time in July 2001. In the third quarter of fiscal 2002, the Company launched fee-based accounts. The Investment services segment has yet to experience significant revenues from the majority of these initiatives due to the early stages of their introduction.

Investment Services - Operating Statistics	Year Ended April 30 2002	2001	2000*
(actual amounts, except as indicated)			
Customer trades	**1,447,513**	2,361,809	1,855,038
Customer daily average trades	**5,767**	9,410	17,500
Average commission per trade	**$ 62.03**	$ 67.38	$ 61.84
Number of active accounts	**695,355**	619,846	658,343
Average trades per active account per year	**2.08**	3.81	2.82
Ending balance of assets under administration (billions)	**$ 25.5**	$ 31.5	$ 44.0
Average assets per active accounts	**$ 36,672**	$ 50,817	$ 66,765
Ending debit balances (000s)	**$ 801,000**	$ 1,299,600	$ 2,843,300
Ending credit balances (000s)	**$ 825,100**	$ 824,000	$ 990,300

** Fiscal year 2000 includes statistics from the date of acquisition of OLDE Financial Corporation on December 1, 1999.*

Investment Services - Financial Results	Year Ended April 30 2002	2001	2000
Margin interest income	**$ 67,849**	$ 211,128	$ 83,955
Less: interest expense	**(14,744)**	(106,265)	(41,563)
Net interest income	**53,105**	104,863	42,392
Commission income	**103,976**	166,362	125,689
Fee income	**25,257**	26,271	11,692
Firm trading income	**44,861**	63,298	46,566
Other	**8,742**	5,366	474
Total revenues**	**235,941**	366,160	226,813
Commissions	**46,490**	68,099	55,327
Other variable expenses	**9,266**	16,342	12,743
Total variable expenses	**55,756**	84,441	68,070
Operating margin	**180,185**	281,719	158,743
Compensation and benefits	**93,314**	93,592	43,842
Occupancy and equipment	**29,106**	28,804	12,551
Depreciation and amortization	**20,416**	17,840	6,058
Amortization of acquisition intangibles	**29,450**	47,530	19,605
Other	**48,067**	58,834	35,461
Allocated corporate and shared costs	**14,694**	25,821	–
Total fixed expenses	**235,047**	272,421	117,517
Pretax earnings (loss)	**$ (54,862)**	$ 9,298	$ 41,226
EBITDA	**$ (2,680)**	$ 76,587	$ 66,889

** *Total revenues, less interest expense.*

Fiscal 2002 compared to fiscal 2001

Investment services revenues, net of interest expense, for the year ended April 30, 2002 compared to the same period last year decreased 35.6% to $235.9 million from $366.2 million. Operating results for Investment services have declined primarily due to weakening trading activity and poor investor sentiment. The economic slow-down that began in the summer of 2000 continued through fiscal year 2002. The events of September 11th and notable business failures disrupted the market and exacerbated the decline in investor confidence. As a result, Investment services has been experiencing a steep decline in trading volumes. Concurrently, customer margin balances have significantly declined throughout fiscal 2002. The Company measures the profitability of margin lending activities through the net interest margin. Net interest margin is defined as interest earned on the average margin loan balance, less the cost of funding these loans. Related to the declining margin balances, interest expense, which is mainly comprised of interest paid on customer credit balances and interest paid for securities lending which is used to finance customer margin balances, has declined in fiscal 2002. Revenues are closely linked with the overall performance of market indices and management believes that when investors are once again confident in the market, margin lending and stock transactions will increase, which will positively affect this segment's results.

Net interest income. Margin interest income declined $143.3 million to $67.8 million for fiscal year 2002. The decrease in margin interest income was primarily attributed to the decline in margin balances and to a lesser extent, lower interest rates. Customer margin balances have declined from an average of $2.4 billion for the year ended April 30, 2001 to an average of $1 billion in fiscal 2002. Total interest expense decreased $91.5 million or 86.1% to $14.7 million from $106.3 million for fiscal year 2002. Interest paid on customer credit balances decreased 65.1% to $11.0 million. The decrease is due to lower interest rates. Balances fell from an average of $900 million in fiscal 2001 to an average of $807 million for fiscal 2002, a decline of 10.3%. Interest paid on securities lending decreased 95% to $3.7 million. In addition to a decline in interest rates, the lower expense is attributable to the decline in customer margin balances. Because stock loans are used to finance the margin-lending portfolio, the decline in the portfolio has reduced the need for this financing. Net interest margin declined from 2.9% for fiscal year 2001 to 1.06% for 2002.

Trading Volume. Total customer trades for fiscal year 2002 were 1.4 million, a decline of 38.7% from the previous year of 2.4 million customer trades. As a result, commission income decreased $62.4 million or 37.5% to $104.0 million from $166.4 million. The average commission per trade declined 7.9% reflecting lower dollar volume trades as compared to the previous year.

Firm Trading. Overall principal trading revenue, including equities, fixed income trading, underwriting, and unit investment trusts, decreased 29.1% to $44.9 million. Equity unit investment trusts ("UITs") decreased 87.1% or $15.6 million and equity trading declined 78.2% or $18.7 million. Client demand for equity UITs fell as many equity UITs have substantially declined from initial offering prices in late fiscal 2000 and early fiscal 2001. Partially offsetting these declines, underwriting revenues increased by $11.5 million or 195.3% from fiscal year 2001, primarily due to increased demand for Trust Preferred Debt Securities. More clients have shown a greater interest in fixed rate capital securities due to the current equity market conditions. Firm trading revenues also reflect the negative impact of decimalization and the closing down of the principal equity trading operations. Decimalization replaced fractional trading for listed equities on January 29, 2001 and for NASDAQ equities on April 9, 2001. The impact of decimalization reduced the spread between the bid and ask prices, reducing revenue opportunities. As a consequence, the principal equity trading operations of HRBFA were closed in April 2002. Exit costs of approximately $1 million were recorded in fiscal year 2002 as a result of this action.

Pretax results for Investment services for fiscal year 2002 compared to the prior year decreased $64.2 million to a loss of $54.9 million from pretax earnings of $9.3 million. The decrease is primarily attributed to the decline in customer trading and customer margin activity. Total expenses decreased by 18.5% to $290.8 million from $356.9 million due primarily to a decrease in commission expense, litigation settlements, and the amortization of intangible assets. The decrease in commission expense paid to financial advisors was due to the decline in trading. At the end of fiscal year 2001, HRBFA agreed to settle a class action lawsuit filed against OLDE Discount Corporation ("OLDE"), predecessor to HRBFA. HRBFA denied liability with respect to these claims, but determined to settle the matter to avoid the costs, expenses, and distractions of further litigation. HRBFA distributed $21 million to a claims administrator agreed upon by the parties for distribution to class members, after satisfaction of attorneys' fees and administrative expenses. The Company accrued $16.8 million related to this settlement in fiscal 2001. As a result of the adoption of SFAS 141 and 142, Investment services amortization of acquired intangible assets declined by $18.1 million from 2001 to 2002.

Investment services has been undergoing process re-engineering and consolidation efforts to streamline certain activities and related cost structures. As a result of these efforts, a reduction in workforce occurred in April 2001, October 2001 and April 2002. The Company incurred related severance charges of approximately $3 million and $1.6 million in fiscal 2002 and 2001, respectively.

Key to Investment services' future success is retention of its financial advisors. As a result of meeting certain three-year production goals set at the time of acquisition, certain long-term advisors are eligible to receive a one-time retention payment. The accrual of this payment negatively impacted fourth quarter 2002 results by $6.4 million. The retention period is through December 31, 2002 with a payment to be made at the beginning of calendar year 2003.

Fiscal 2001 compared to fiscal 2000

Investment services revenues, net of interest expense, for fiscal 2001 increased 61.4% to $366.2 million from $226.8 million. The increase is attributable primarily to the acquisition of OLDE Financial Corporation on December 1, 1999, and reflects a full twelve months of revenues and expenses for the acquired companies in fiscal year 2001 as compared with only five months for fiscal year 2000.

Net interest income. Customer margin interest income increased for fiscal year 2001. The increase is due to twelve months of revenue for 2001 compared to five months of revenue for 2000. Margin balances had fallen dramatically from $2.8 billion at the end of fiscal 2000 to $1.3 billion at the end of fiscal 2001. However, average margin balances for the five months of fiscal 2000 compared to the twelve months of fiscal year 2001 were similar, $2.5 billion compared with $2.4 billion. Interest expense increased $64.7 million or 155.7% to $106.3 million from $41.6 million. Interest expense paid on customer credit balances was $31.6 million for 2001 and $16.5 million for the five months of 2000. Customer credit balances averaged $900 million for 2001 and averaged $1.1 billion for 2000. Interest expense on securities loaned was $74.6 million for 2001 and $25.0 million for the five months of 2000. Net interest margin improved from 2.5% to 2.9% as reliance on higher-cost funding sources decreased.

Trading Volume. In line with the market's general decline for the period, the Company's average trading volumes fell by more than 46% as measured by average trades per day. However, the average commission per trade rose reflecting a general increase in commission charges.

Pretax earnings for this segment decreased by 77.4% to $9.3 million from $41.2 million earned in fiscal 2000. The decrease in pretax earnings is primarily attributable to lower trading volume, an increase in the amortization of acquired intangible assets and a litigation settlement. In the former case, there were twelve months of acquired intangible asset amortization in fiscal year 2001, whereas in fiscal 2000 there were only five months. In the latter case, HRBFA agreed to settle a class action lawsuit filed against OLDE. HRBFA denied liability with respect to these claims, but determined to settle the matter to avoid the costs, expenses, and distractions of further litigation. HRBFA distributed $21 million to a claims administrator agreed upon by the parties for distribution to class members, after satisfaction of attorneys' fees and administrative expenses. The Company accrued $16.8 million related to this settlement in fiscal 2001.

In an effort to improve profitability due to weak market conditions, in April 2001 Investment services reduced its workforce by 6%, which resulted in a one-time charge of $1.6 million related to severance costs.

BUSINESS SERVICES

This segment is primarily engaged in providing accounting, tax, consulting, payroll, employee benefits and capital markets services to business clients and tax, estate planning, financial planning, wealth management and insurance services to individuals.

In December 2001, the Company made two acquisitions that provide opportunities to capitalize on existing client relationships by providing value-added services. The Company acquired a controlling interest in MyBenefitSource Inc., an integrated payroll and benefits processing company, with an option to acquire the remaining shares. The Company also acquired 100% of Equico Resources, LLC ("Equico"), a valuation, merger and acquisition consulting firm. These acquisitions were accounted for as purchases, and the results of operations for these businesses have been consolidated in the segment's financial results since acquisition. Cash payments related to these acquisitions totaled $28.5 million, with expected additional cash payments of $31.0 million to be made over the next five years. The purchase agreements also provide for possible future contingent consideration based on achieving certain revenue, profitability and working capital targets over the next six years, and such consideration will be treated as purchase price if paid.

In addition, the Company has acquired several accounting firms during fiscal year 2002 which have initiated a geographic presence in the Seattle and San Francisco metropolitan areas and expanded its existing presence in the New York City and Dallas metropolitan areas.

	Year Ended April 30		
Business Services - Financial Results	**2002**	**2001**	**2000**
Accounting, consulting and tax	**$ 368,593**	$ 332,099	$ 277,624
Product sales	**19,062**	20,960	16,533
Management fee income	**11,700**	11,467	17,341
Other	**17,571**	21,642	8,425
Total revenues	**416,926**	386,168	319,923
Compensation and benefits	**265,960**	240,660	182,592
Occupancy and equipment	**19,957**	24,792	28,444
Depreciation and amortization	**7,063**	7,208	6,286
Marketing and advertising	**6,285**	5,485	4,758
Bad debt	**11,353**	9,164	5,598
Amortization of acquisition intangibles	**14,276**	31,576	22,786
Other	**67,738**	49,814	52,348
Allocated corporate and shared costs	**1,578**	1,516	-
Total expenses	**394,210**	370,215	302,812
Pretax earnings	**$ 22,716**	$ 15,953	$ 17,111
Operating margin	**5.4%**	4.1%	5.3%
EBITDA	**$ 44,106**	$ 54,774	$ 46,171

Fiscal 2002 compared to fiscal 2001

Business services revenues of $416.9 million increased 8.0% from $386.2 million in the prior year. This increase was due to the addition of new firms and revenue from tax consulting and wealth management services. The effect of acquisitions completed in fiscal year 2002 plus the full year for mergers completed in fiscal year 2001, net of the sale of the businesses in fiscal year 2001, was to increase revenue for the year by $24.8 million. Growth from tax consulting and wealth management services was $8.3 million. Billed “out-of-pocket” expenses that are presented as revenues and expenses under EITF 01-14, were $5.4 million higher in fiscal 2002 than in the prior year. Partially offsetting these increases, revenue from core tax services and general business consulting services declined $9.8 million from the prior year. A recession in manufacturing and a continuing cautious business environment have contributed to weakness in the segment’s business consulting services in the current fiscal year.

Pretax earnings improved 42.2% from $16.0 million in the prior year to $22.7 million in fiscal 2002. The improvement in pretax earnings is largely related to the adoption of SFAS 141 and 142, representing an improvement to the year-over-year comparison of $19.3 million. This increase was partly offset by $6.7 million relating to operating losses for MyBenefitSource and Equico during the year. In addition, fiscal 2001 included a gain on the sale of the assets of KSM Business Services, Inc. of $2.0 million.

Fiscal 2001 compared to fiscal 2000

Business services revenues of $386.2 million increased 20.7% from $319.9 million in fiscal year 2000. The increase in revenues over the prior year is primarily attributable to the inclusion of RSM McGladrey for twelve months as compared to nine months for the previous year, contributing $43.8 million to the increase, and growth in services of $44.7 million. The growth in services includes extended tax consulting services and insurance alliance revenues. In addition, newly acquired firms, net of the revenues lost from sold offices contributed to the increase. These increases were partially offset by a decrease in revenue from technology consulting fees associated with year 2000 engagements, the decision to close certain unprofitable technology consulting practices, and the change in organizational structure that affected attest revenues discussed in the next paragraph.

As of April 30, 2001, the operations of five of the original regional accounting firms acquired were 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 certain of the regional accounting firms, the Company was required, in accordance with Emerging Issues Task Force Issue 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 in fiscal 2001 as a result of the change in organizational structure.

Pretax earnings for fiscal 2001 declined $1.2 million, or 6.8%, from fiscal 2000. This is primarily due to a $3.5 million loss from RSM McGladrey during the first quarter of fiscal 2001 that was not experienced in the prior year due to the timing of the acquisition. Earnings from newly acquired firms and net growth from the core business offset this loss.

CORPORATE OPERATIONS

This segment consists primarily of corporate support departments which provide services to the Company’s operating segments. These support departments consist of marketing, information technology, facilities, human resources, supply, executive, legal, finance and corporate communications. These support department costs are largely allocated to the Company’s operating segments. The Company’s captive insurance and franchise financing subsidiaries are also included within this segment.

As previously discussed, the Company adopted a new methodology for allocation of corporate services and support costs to business units. The change was made to more accurately reflect each business segment’s performance. Fiscal year 2001 segment results have been restated based on this allocation methodology.

Corporate Operations & Interest Expense on Acquisition Debt - Financial Results	Year Ended April 30		
	2002	**2001**	**2000**
Total revenues	**$ 5,773**	$ 5,837	$ 4,668
Compensation and benefits	**89,552**	69,597	38,895
Occupancy and equipment	**23,676**	17,576	7,098
Depreciation and amortization	**25,130**	18,375	10,987
Marketing and advertising	**102,896**	68,691	41,229
Other	**89,308**	90,060	56,688
Allocated corporate and shared costs	**(268,656)**	(227,563)	(127,753)
Total expenses	**61,906**	36,736	27,144
Pretax loss	**$ (56,133)**	$ (30,899)	$ (22,476)
Interest expense on acquisition debt	**$ 79,002**	$ 98,759	$ 56,118

Fiscal 2002 compared to fiscal 2001

The pretax loss for fiscal 2002 increased $25.2 million to $56.1 million compared to fiscal 2001. The increase is primarily due to higher employee benefit expenses and an increase in unallocated research and development activity. The decrease in interest expense on acquisition debt is attributable to lower financing costs and payment of a portion of the acquisition debt in fiscal 2002.

Fiscal 2001 compared to fiscal 2000

The pretax loss for fiscal 2001 increased 37.5% to $30.9 million from $22.5 million in the prior year. The increase is primarily a result of higher employee costs and interest expense related to borrowings for funding of operations, including share repurchases. Interest expense on acquisition debt increased $42.6 million in fiscal 2001 compared to fiscal 2000. The increase is primarily attributable to a full year of financing costs associated with the acquisition of OLDE in December 1999 compared with only five months in fiscal 2000.

FINANCIAL CONDITION

The Company's liquidity needs are met through a combination of operational cash flows, commercial paper ("CP") issuance, HRBFA client account assets and stock loans, and for the Mortgage segment, a mix of whole loan sales and residual securitizations.

OPERATING NET CASH INFLOWS

Operating cash flows totaled $741.4 million, $248.4 million and $453.0 million in fiscal years 2002, 2001 and 2000, respectively. These net cash inflows from operations are generated by the various segments, the largest provider of which is U.S. tax operations. While annual operating cash flows are positive, the seasonal nature of U.S. tax operations results in a negative operating cash flow through the first three quarters of the fiscal year and then a large positive operating cash flow in the fourth quarter. Management views these cash flows as stable.

The following table calculates net operating free cash flow, which reflects the strong cash flows generated by the Company's business. In addition, the table highlights management's capital allocation decisions.

	Year Ended April 30		
	2002	**2001**	**2000**
Net earnings	**$ 434,405**	$ 281,162	$ 251,895
Depreciation and amortization	**155,386**	205,608	147,218
Capital expenditures	**(111,775)**	(92,411)	(145,753)
Debt payments	**(55,845)**	(72,579)	(4,730)
Contingent payments on prior acquisitions	**(16,833)**	(5,145)	–
Net other balance sheet changes	**198,717**	133,542	288,168
Net operating free cash flow	**604,055**	450,177	536,798
Other sources (uses) of cash:			
Short term financing	**–**	(283,797)	211,858
Proceeds from long term debt issuance	**–**	–	495,800
Business acquisitions	**(29,905)**	(15,998)	(971,802)
Proceeds from issuance of common stock	**195,233**	19,550	33,222
Tax benefit on stock option exercises	**57,809**	2,235	3,736
Purchases of treasury stock	**(462,938)**	(222,895)	(50,654)
Dividends paid	**(115,725)**	(108,374)	(105,480)
	(355,526)	(609,279)	(383,320)
Net increase (decrease) in cash and cash equivalents	**$ 248,529**	$ (159,102)	$ 153,478

COMMERCIAL PAPER ISSUANCE

The Company participates in the $1.4 trillion United States commercial paper market to meet operating cash needs and to fund its RAL participation. This participation is executed through Block Financial Corporation ("BFC"), a wholly owned subsidiary of the Company. The following chart provides the debt ratings for BFC as of April 30, 2002:

	Short-Term	Long-Term
S&P	A-2	BBB+
Moody's	P-2	A3
Fitch	F-1	A
DBRS*	R-1 (low)	A

* *Dominion Bond Rating Service of Canada – used for Canadian commercial paper issuance.*

The Company incurs short-term borrowings throughout the year primarily to fund receivables associated with its Business services segment, mortgage loans held for sale, participation in RALs and seasonal working capital needs. Because of the seasonality of U.S. tax operations, the Company has had intra-year short-term borrowings, which peaked at $2.2 billion in February 2002 primarily due to RALs. No commercial paper was outstanding at fiscal year-end 2002 and 2001.

The Company's commercial paper issuances are supported by unsecured committed lines of credit ("CLOCs"). The United States issuances are supported by a $1.93 billion CLOC from a consortium of twenty banks. The $1.93 billion CLOC is subject to annual renewal in October of 2002, and has a one-year term-out provision with a maturity date of October 2003. The Canadian issuances are supported by a $125 million credit facility provided by one bank. This line is subject to a minimum net worth covenant. The Canadian CLOC is subject to annual renewal in December of 2002. There are no rating contingencies under the CLOCs. In addition, the Company entered into a $500 million CLOC during the peak RAL season, which expired in February 2002. An additional CLOC for $500 million was also in place for RAL season in fiscal 2001. These CLOCs remain undrawn at April 30, 2002.

Management believes the commercial paper market to be stable. Risks to the stability of the Company's commercial paper market participation would be a short-term rating downgrade below A2/P2/F2, resulting from adverse changes in the Company's financial performance, non-renewal of the $1.93 billion CLOC in October 2003, and operational risk within the commercial paper market such as the events on September 11. Management believes if any of these events were to occur, the CLOCs, to the extent available, could be used for an orderly exit from the commercial paper market, though at a higher cost to the Company. Additionally, the Company could turn to its other sources of liquidity, including cash, other uncommitted bank borrowings, medium- and long-term debt issuance and asset securitization.

OTHER OBLIGATIONS AND COMMITMENTS

In April 2000, the Company issued $500 million of 8 1/2% Senior Notes, due 2007. The Senior Notes are not redeemable prior to maturity. The net proceeds of this transaction were used to repay a portion of the initial short-term borrowings for the OLDE Financial Corporation acquisition.

In October 1997, the Company issued $250 million of 6 3/4% Senior Notes, due 2004. The Senior Notes are not redeemable prior to maturity. The net proceeds of this transaction were used to repay short-term borrowings that initially funded the acquisition of Option One Mortgage Corporation ("Option One").

As of April 30, 2002, the Company had $250 million remaining under its shelf registration of debt securities for additional debt issuance.

Long-term debt at April 30, 2002 was comprised of the $750 million of Senior Notes described above, future payments related to the acquisitions of RSM McGladrey and other accounting firms, capital lease obligations and mortgage notes. The Company's debt to total capital ratio was 40.4% at April 30, 2002, compared with 44.0% at April 30, 2001.

Business services has commitments to fund certain attest entities, that are not consolidated, related to accounting firms it has acquired. Commitments also exist to loan up to $40 million to McGladrey & Pullen, LLP on a revolving basis through July 31, 2004, subject to certain termination clauses. This revolving facility bears interest at the prime rate plus four and one-half percent on the outstanding amount and a commitment fee of one-half percent per annum on the unused portion of the commitment.

In connection with the Company's acquisition of the non-attest assets of McGladrey & Pullen, LLP ("McGladrey") in August 1999, the Company assumed certain pension liabilities related to McGladrey's retired partners. The Company makes payments in varying amounts on a monthly basis. Included in other noncurrent liabilities at April 30, 2002 and 2001 are $25,655 and $31,360, respectively, related to this liability.

In connection with the Company's Business services acquisitions, the purchase agreements provide for possible future contingent consideration which is based on achieving certain revenue, profitibility and working capital requirements over the next six years.

A summary of the Company's obligations and commitments to make future payments is as follows:

Contractual Obligations	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Long-term debt	$ 749,859	$ 1,123	$ 252,311	$ 496,425	$ –
Capital lease obligations	13,942	940	926	1,035	11,041
Operating leases	525,201	170,959	219,440	73,410	61,392
Acquisition payments	164,242	57,593	74,752	31,897	–
Total contractual cash obligations	$ 1,453,244	$ 230,615	$ 547,429	$ 602,767	$ 72,433

LIQUIDITY BY STRATEGIC BUSINESS UNIT
U.S. tax operations:

U.S. tax operations is the largest provider of operating cash flows to the Company. Free cash flow, defined as U.S. tax operations' net earnings plus amortization and depreciation expense, was $382.5 million in fiscal 2002 and $323.8 million in fiscal 2001. Relative to revenues of $1.8 billion and $1.6 billion in fiscal 2002 and 2001, free cash flow represents 20.9% and 20.0% of revenues, respectively. Management believes these cash flows to be predictable and recurring in nature.

RAL participation funding totaled $4.6 billion in fiscal 2002, compared with $3.6 billion in fiscal 2001. The peak RAL-related receivable balance was $1.6 billion in fiscal 2002. These participation interests were funded by operating cash flows and commercial paper borrowings. Interest expense related to the RAL product was $3.9 million and $3.3 million in fiscal years 2002 and 2001, respectively.

International tax operations:

International tax operations are generally self-funded. Cash flows are held in Canada, Australia and the United Kingdom independently and in local currencies and are not repatriated. H&R Block Canada has a $125 million commercial paper program. At April 30, 2002, there was no commercial paper outstanding. The peak borrowing during fiscal year 2002 was $43.0 million.

Mortgage operations:

Through Option One and H&R Block Mortgage Corporation, this segment primarily originates, services, and sells non-conforming and conforming mortgage loans. In an effort to reduce the Company's capital investment in its mortgage operations, the Company entered into third-party off-balance sheet arrangements beginning in April 2000, renewable annually. The arrangements, which are not guaranteed by the Company, have freed up cash and short-term borrowing capacity ($1.1 billion at April 30, 2002), improved liquidity and flexibility, and reduced balance sheet risk, while providing stability and access to liquidity in the secondary market for mortgage loans. See note 5 in the consolidated financial statements for additional information on the Company's residuals.

The Company originates mortgage loans and sells most loans the same day in a whole-loan sale to a third-party trust ("Trust"). The sale is recorded in accordance with Statement of Accounting Standards No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." The Trust purchases the loans from the Company utilizing warehouse facilities the Company has not guaranteed. The warehouse facilities are provided by two third-party financial institutions that have each provided $1 billion. These facilities are subject to various performance triggers and limits, and financial covenants including tangible net worth and leverage ratios. Option One is well within the range of these triggers. The Trust is solely responsible for paying principal and interest on the warehouse financing arrangement. As a result of the whole-loan sale to the Trust, the Company records a receivable from the Trust for the present value of the portion of the net spread (the difference between the note rate on the loans and the financing cost of the trust) plus prepayment penalty income. This receivable is included in prepaid and other current assets on the consolidated balance sheets. The Company then pledges its receivable and the Trust pledges the related mortgage loans to a securitization trust to reconstitute the loans. The securitization trust then securitizes the reconstituted mortgage loans. At this point, the Company's receivable is recharacterized as a residual interest from the securitized mortgage loans. These residual interests are classified as trading and are included in marketable securities-trading on the consolidated balance sheets.

To enable the Company to accelerate a significant portion of the cash flow from residual interests rather than over the life of the securitization, the Company securitizes its residual interests in a net interest margin ("NIM") transaction. From the NIM transaction, the Company receives cash and retains a much smaller residual interest. Generally, these residuals do not begin to receive cash collections for two to three years. These residual interests are classified as available-for-sale.

The Company began receiving cash collections from its residual interests in fiscal 2002 which reduces the outstanding balance of the residuals. Cash received on these residual interests for fiscal 2002 was $67.1 million.

The Company has commitments to fund mortgage loans of $1.7 billion at April 30, 2002, subject to contract verification. External market forces impact the probability of loan commitments being closed, and therefore, total commitments outstanding do not necessarily represent future cash requirements. If the loan commitments are exercised, they will be funded in the manner described above.

The mortgage segment regularly sells whole loans as a source of liquidity for its prime and non-prime mortgages. Whole loan sales in fiscal year 2002 were $11.4 billion compared with $6.0 billion in 2001. Additionally, the Company provides the mortgage division a $150 million line of credit for working capital needs.

Management believes the sources of liquidity available to the mortgage operations segment are predictable and sufficient for its needs. Risks to the stability of these sources include external events impacting the asset-backed securities market. The liquidity available from the NIM transactions is also subject to external events impacting this market. These external events include but are not limited to spread widening, adverse changes in the perception of the non-prime industry or in the regulation of non-prime lending and reduction in the availability of third parties that provide credit enhancement. Performance of the NIM transactions will also impact the segment's future participation in these markets. The warehouse facilities used by the Trust are subject to annual renewal in April and any of the above events could lead to difficulty in renewing the lines. These risks are mitigated by the availability of whole-loan sales and financing provided by the Company.

Investment services:

Liquidity needs relating to client trading and margin-borrowing activities are met primarily through cash balances in brokerage client accounts and working capital. Management believes these sources of funds will continue to be the primary sources of liquidity for HRBFA. Stock loans are often used as a secondary source of funding as well.

HRBFA is subject to regulatory requirements that are intended to ensure the general financial soundness and liquidity of broker-dealers.

HRBFA is required to maintain minimum net capital as defined under Rule 15c3-1 of the Securities Exchange Act of 1934 and has elected to comply with the alternative capital requirement, which requires a broker-dealer to maintain net capital equal to the greater of $1 million or 2% of the combined aggregate debit balances arising from customer transactions. The net capital rule also provides that equity capital may not be withdrawn or cash dividends paid if resulting net capital would be less than the greater of 5% of combined aggregate debit items or $1 million. At April 30, 2002, HRBFA's net capital of $143.5 million, which was 16.42% of aggregate debit items, exceeded its minimum required net capital of $17.5 million by $126.0 million.

To manage short-term liquidity, HRBFA maintains a $300 million unsecured credit facility with BFC, its immediate corporate parent. Additionally, HRBFA maintains a $50 million uncommitted, collateralized pledge facility for settlement purposes with the clearing organizations. As of April 30, 2002 and 2001, there were no outstanding balances on these facilities.

Securities borrowed and securities loaned transactions are generally reported as collateralized financings. These transactions require the Company to deposit cash and/or collateral with the lender. Securities loaned consist of securities owned by customers, which were purchased on margin. When loaning securities, the Company receives cash collateral approximately equal to the value of the securities loaned. The amount of cash collateral is adjusted, as required, for market fluctuations in the value of the securities loaned. Interest rates paid on the cash collateral fluctuate as short-term interest rates change.

To satisfy the margin deposit requirement of client option transactions with the Options Clearing Corporation ("OCC"), HRBFA pledges customers' margined securities. Pledged securities at April 30, 2002 totaled $42.8 million, an excess of $4.0 million over the

margin requirement. In April 2001, HRBFA provided the OCC with letters of credit of $68.0 million to satisfy the $63.8 million margin requirement. The letters of credit were collateralized by customers' margined securities.

Management believes the funding sources for HRBFA are stable. Liquidity risk within HRBFA is primarily limited to maintaining sufficient capital levels to obtain securities lending liquidity to support margin borrowing by customers.

Business services:

Business services funding requirements are largely related to "work in process." A line of credit is available from the Company sufficient to cover this unit's working capital needs.

Business services has commitments to fund certain attest entities, that are not consolidated, related to accounting firms it has acquired. Commitments also exist to loan up to $40 million to McGladrey & Pullen, LLP on a revolving basis through July 31, 2004, subject to certain termination clauses. This revolving facility bears interest at the prime rate plus four and one-half percent on the outstanding amount and a commitment fee of one-half percent per annum on the unused portion of the commitment.

Business services also has future obligations that are summarized in the table above under "Other Obligations and Commitments."

CAPITAL RESOURCES

Cash provided by operations totaled to $741.4 million during fiscal 2002 as compared to $248.4 million in the prior year. Cash provided by operations was impacted by the net profits from operations of $434.4 million for fiscal 2002 compared to a net profit of $281.2 million in fiscal 2001.

Cash expenditures during fiscal year 2002 relating to investing and financing activities include the purchase of property and equipment ($111.8 million), business acquisitions ($46.7 million), payments on acquisition debt ($50.6 million), payment of dividends ($115.7 million) and the acquisition of treasury shares ($267.7 million net of the proceeds from issuance of common stock).

Cash and cash equivalents, including restricted balances, totaled $588.3 million at April 30, 2002. HRBFA held $256.8 million of the $588.3 million, of which $108.0 million was segregated in a special reserve account for the exclusive benefit of customers pursuant to Rule 15c3-3 of the Securities Exchange Act of 1934 (restricted cash). The HRBFA restricted cash balance has grown from $16.0 million at the beginning of fiscal 2002 to $108.0 million at April 30, 2002. Customer credit balances have become larger than customer debit balances due to the significant decline in margin loan balances resulting from the slowing economy, while customer credit balances have increased slightly during the period. The remaining cash and cash equivalents held by HRBFA reflect excess cash remaining from the firm and clients after funding margin debits and security settlements. Restricted cash held by Mortgage operations totaled $32.1 million at April 30, 2002 as a result of cash held for outstanding commitments to fund mortgage loans. Restricted cash of $12.0 million at April 30, 2002 held by Business services is related to funds held to pay payroll taxes on behalf of their customers. The remaining balance of cash and cash equivalents held reflects net operational cash flow.

Working capital increased to $365.4 million at April 30, 2002 from $282.8 million at April 30, 2001. The working capital ratio at April 30, 2002 is 1.19 to 1, compared to 1.14 to 1 at April 30, 2001. 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.

In March 2000, the Company's Board of Directors approved an authorization to repurchase up to 12 million shares of its common stock. Repurchases under the March 2000 authorization were completed in September 2001. On September 12, 2001, the Company's Board of Directors authorized the repurchase of an additional 15 million shares of common stock. During fiscal 2002, the Company repurchased 12.2 million shares (split-adjusted) pursuant to these authorizations at an aggregate price of $462.5 million or an average price of $37.76 per share. There are approximately 8.5 million shares remaining under the September 2001 authorization. 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.

FORWARD-LOOKING INFORMATION

The Notes to the Consolidated Financial Statements, as well as other information contained in this Annual Report to Shareholders 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; 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 of the continued availability of sources of liquidity; the uncertainty of the assumptions used in determining the fair values of residual interests and mortgage servicing rights; litigation involving the Company; the uncertainty of the impact of any 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.

CRITICAL ACCOUNTING POLICIES

The policies discussed below are considered by management to be critical to an understanding of the Company's financial statements because their application places the most significant demands on management's judgment, with financial reporting results relying on estimation about the effect of matters that are inherently uncertain. Specific risks for these critical accounting policies are described in the following paragraphs. For all of these policies, management cautions that future events rarely develop as forecast, and estimates routinely require adjustment and may require material adjustment.

Valuation of long-lived assets: The Company reviews long-lived assets, mainly intangible assets arising from business combinations, whenever events or circumstances indicate the carrying amounts may not be fully recoverable. The first step in the review is to compare the carrying value of the assets with estimated future undiscounted cash flows. If this comparison indicates impairment, the impairment loss is measured as the difference between the carrying value and the fair value of the asset. Management estimates future discounted and undiscounted cash flows and fair values based upon historical performance, trends, leading indicators and various other factors. A significant change in the assumptions underlying the cash flows or fair values could result in a different determination of impairment loss and/or the amount of any impairment.

Valuation of goodwill: The Company tests goodwill for impairment annually or more frequently whenever events occur or circumstances change which would more likely than not reduce the fair value of a reporting unit below its carrying amount. A reporting unit is an operating segment or one level below an operating segment. The first step of the impairment test is to compare the estimated fair value of the reporting unit to carrying value. If the carrying value is less than fair value, no impairment exists. If the carrying value is greater than fair value, a second step is performed to determine the fair value of goodwill and the amount of impairment loss, if any. In estimating each reporting unit's fair value using discounted cash flow projections, management makes assumptions, including discount rates, growth rates and terminal values. Changes in the projections or assumptions could materially affect fair values. The initial and annual assessment in fiscal 2002 resulted in the fair value of each reporting unit exceeding the carrying value.

Gain on sale of mortgage loans: The Company sells, in whole-loan sales, substantially all of the mortgage loans it originates to a third-party trust ("Trust"). Following the whole loan sales to the Trust, the Company retains mortgage servicing rights ("MSRs") and

a receivable from the Trust for a portion of the net interest income that the trust earns while holding the mortgage loans (similar to an interest only strip). The Company reports gain on sale as the difference between cash proceeds and the allocated cost of loans sold.

The Company determines the allocated cost of loans sold based on the relative fair values of loans sold, the receivable from the Trust and MSRs. The relative fair values of the receivable from the Trust and the MSRs are determined using discounted cash flow models which require various management assumptions (see discussion below in "Valuation of residual interests" and "Valuation of mortgage servicing rights"). Variations in these assumptions affect the estimated fair values, which would affect the reported gain on sale.

Ultimately, the Trust and the Company pledge the mortgage loans and the receivable to a securitization trust to reconstitute the loans so they can be securitized. The securitization trust then securitizes the mortgage loans, and the Company's receivable from the Trust is recharacterized as a residual interest from the securitized mortgage loans. The Company securitizes these residual interests in net interest margin ("NIM") transactions, and receives cash and much smaller residual interests. These NIM transactions require management to make various assumptions that may materially affect the gain on securitization.

Valuation of residual interests: The Company uses discounted cash flow models to arrive at the initial estimated fair values of its residual interests. The fair value of residual interests is estimated 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 (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, (6) other fees, and (7) payments made to investors on NIM bonds. The weighted average coupon on the loans sold and the coupon on the senior interests take into consideration the current and expected interest rate environment, including projected changes in future interest rates and the timing of such changes. Prepayment and loss assumptions used in estimating the cash flows are based on evaluations of the actual experience of the Company's servicing portfolio or on market rates on new portfolios, also taking into consideration the current interest rate environment and its expected impact on future prepayment 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. The Company evaluates the fair values of residual interests quarterly by updating the actual and expected assumptions in the discounted cash flow models. Variations in the above assumptions, as well as the discount rate and interest rate assumptions, could materially affect the estimated fair values, which may require the Company to record impairments. In addition, variations will also affect the amount of residual interest accretion recorded on a monthly basis. See note 5 to the consolidated financial statements for current assumptions.

Valuation of mortgage servicing rights: The Company sells mortgage loans with servicing retained. MSRs are recorded at allocated carrying amounts based on relative fair values when the loans are sold (see discussion above in "Gain on sale of mortgage loans"). Relative fair values of MSRs are determined based on present values of estimated future servicing cash flows. Assumptions used in estimating the value of MSRs include discount rates and prepayment rates. Prepayment rates are estimated using the Company's historical experience and third party market sources. Variations in these assumptions could materially affect the carrying value of the MSRs.

MSRs are periodically reviewed for impairment by management. Impairment is assessed based on the fair value of each risk stratum. Fair values take into account the historical prepayment activity of the related loans and management's estimates of the remaining future cash flows to be generated by the underlying mortgage loans. If actual prepayment rates prove to be higher than the estimate made by management, impairment of the MSRs could occur.

Other significant accounting policies: Other significant accounting policies, not involving the same level of measurement uncertainties as those discussed above, are nevertheless important to an understanding of the financial statements. These policies require difficult judgments on complex matters that are often subject to multiple sources of authoritative guidance. Certain of these matters are among topics currently under reexamination by accounting standards setters and regulators. Although no specific conclusions reached by these standard setters appear likely to cause a material change in the Company's accounting policies, outcomes cannot be predicted with confidence. Also see note 1 to the consolidated financial statements which discusses accounting policies that must be selected by management when there are acceptable alternatives.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Dollars in thousands, except share data

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of operations: The operating subsidiaries of H&R Block, Inc. provide a variety of services to the general public, principally in the United States, but also in Canada, Australia and other foreign countries. Approximately $1.9 billion, or 57.6% of total revenues for the year ended April 30, 2002 were generated from tax return preparation, electronic filing of tax returns and other tax-related services. Certain of these subsidiaries also originate, service, and sell nonconforming and conforming mortgages, offer investment services through broker-dealers, offer personal productivity software, participate in refund anticipation loan products offered by a third-party lending institution, and offer accounting, tax and consulting services to business clients.

Principles of consolidation: The consolidated financial statements include the accounts of H&R Block, Inc. (the "Company"), all majority-owned subsidiaries and companies that are directly or indirectly controlled by the Company through majority ownership or otherwise. All material intercompany transactions and balances have been eliminated.

Some of the Company's subsidiaries operate in regulated industries, and their underlying accounting records reflect the policies and requirements of these industries.

Reclassifications: Certain reclassifications have been made to prior year amounts to conform with the current year presentation. Restricted cash of $84,197 and $33,183 was reclassified from cash and cash equivalents in fiscal years 2001 and 2000, respectively. This reclassification reduced cash flows from operating activities in the consolidated statements of cash flows for the years ended April 30, 2001 and 2000 by $51,014 and $33,183, respectively.

Management estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Cash and cash equivalents: Cash and cash equivalents include cash on hand, cash due from banks and securities purchased under agreements to resell. For purposes of the consolidated balance sheets and consolidated statements of cash flows, the Company considers all non-restricted highly liquid instruments purchased with an original maturity of three months or less to be cash equivalents.

The Company's broker-dealers purchase securities under agreements to resell and account for them as collateralized financings. The securities are carried at the amounts at which the securities will be subsequently resold, as specified in the respective agreements. Collateral relating to investments in repurchase agreements is held by independent custodian banks. The securities are revalued daily and collateral added whenever necessary to bring market value of the underlying collateral equal to or greater than the repurchase amount specified in the contracts.

Cash and cash equivalents – restricted: Cash and cash equivalents – restricted consists primarily of securities purchased under agreements to resell and cash that have been segregated in a special reserve account for the exclusive benefit of customers pursuant to federal regulations under Rule 15c3-3 of the Securities Exchange Act of 1934. Also included are cash held for outstanding commitments to fund mortgage loans and funds held to pay payroll taxes on behalf of customers.

Marketable securities – available-for-sale: Certain marketable debt and equity securities are classified as available-for-sale, based on management's intentions, and are carried at market value, based on quoted prices, with unrealized gains and losses included in other comprehensive income. The cost of marketable securities sold is determined on the specific identification method and realized gains and losses are reflected in earnings.

Residual interests in securitizations: Certain residual interests in securitizations of real estate mortgage investment conduits ("REMICs") and in net interest margin ("NIM") transactions are recorded as a result of the Company's securitization of mortgage loans through various special-purpose trust vehicles. These residual interests are classified as available-for-sale securities, and are carried at market value, based on discounted cash flow models, with unrealized gains and losses included in other comprehensive income. The residual interests are amortized over the estimated life of the related loan's cash flows. If losses are determined to be other-than-temporary, the residual is written down to fair value with the realized loss, net of any unrealized gain in other comprehensive income, included in the consolidated statements of earnings.

Marketable securities – trading: Certain marketable debt and equity securities are classified as trading, and are held by the Company's broker-dealers. Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" is not applicable to broker-dealers. These securities are carried at market value, based on quoted prices, with unrealized gains and losses included in earnings. Certain residual interests in securitizations of REMICs are classified as trading, based on management's intentions and criteria as established by the Company, and are carried at market value, based on discounted cash flow models, with unrealized gains and losses included in earnings.

Receivables from customers, brokers, dealers and clearing organizations and accounts payable to customers, brokers and dealers: Customer receivables and payables consist primarily of amounts due on margin and cash transactions. These receivables are collateralized by customers' securities held, which are not reflected in the accompanying consolidated financial statements.

Receivables from brokers are generally collected within 30 days and are collateralized by securities in physical possession of or on deposit with the Company or receivables from customers or other brokers. The allowance for doubtful accounts represents an amount considered by management to be adequate to cover potential losses.

Securities borrowed and securities loaned transactions are generally reported as collateralized financing. Securities borrowed and loaned transactions require the Company to deposit cash and/or collateral with the lender. Securities loaned consists of securities owned by customers which were purchased on margin. When loaning securities, the Company receives cash collateral approximately equal to the value of the securities loaned. The amount of cash collateral is adjusted, as required, for market fluctuations in the value of the securities loaned. Interest rates paid on the cash collateral fluctuates as short-term interest rates change.

Receivables: Receivables consist primarily of Business services accounts receivable and mortgage loans held for sale. Mortgage loans held for sale are carried at the lower of cost or market value. The allowance for doubtful accounts represents an amount considered by management to be adequate to cover potential losses.

Foreign currency translation: Assets and liabilities of the Company's foreign subsidiaries are translated into U.S. dollars at exchange rates prevailing at the end of the year. Revenue and expense transactions are translated at the average of exchange rates in effect during the period. Translation gains and losses are recorded in other comprehensive income.

Intangible assets and goodwill: In May 2001, the Company elected early adoption of Statement of Financial Accounting Standards No. 141, "Business Combinations," and No. 142, "Goodwill and Other Intangible Assets" ("SFAS 141 and 142"). See "New accounting standards" below.

As of May 1, 2001, the Company identified those intangible assets that remain separable under the provisions of SFAS 141 and those that are to be included in goodwill. In applying SFAS 142, the Company re-evaluated the useful lives of these separable intangible assets. The weighted average life of the remaining intangible assets with finite lives is 10 years. In accordance with SFAS 141, on the date of adoption, the previously identified intangible assets of assembled workforce and management infrastructure were subsumed into goodwill.

On the date of adoption and at least annually, SFAS 142 requires testing of goodwill for impairment. No indications of goodwill impairment were found during fiscal year 2002.

In addition, the Company assesses long-lived assets, including intangible assets, for impairment whenever events or circumstances indicate that the carrying value may not be fully recoverable by comparing the carrying value to future undiscounted cash flows. To the extent that there is impairment, analysis is performed based on several criteria, including, but not limited to, revenue trends, discounted operating cash flows and other operating factors to determine the impairment amount. No material impairment adjustments to other intangible assets or other long-lived assets were made during fiscal year 2002, 2001, or 2000.

Mortgage servicing rights: Mortgage servicing rights ("MSRs") are retained in the sale of mortgage loans and are recorded based on the present value of estimated future cash flows related to servicing loans. The MSRs are amortized to earnings in proportion to, and over the period of, estimated net future servicing income. MSRs are periodically reviewed for impairment. Impairment is assessed based on the fair value of each risk stratum. The Company stratifies MSRs using the following risk characteristics: loan sale date (which approximates date of origination); and loan type (6-month adjustable, 2 to 3-year adjustable and 30-year fixed). Fair values take into account the historical prepayment activity of the related loans and management's estimates of the remaining future cash flows to be generated by the underlying mortgage loans. When MSRs are reviewed, management makes an estimate of the future prepayment

rates and other key variables of the underlying mortgage loans, and if actual performance proves to be worse than the estimate, impairment of MSRs could occur. At April 30, 2002 and 2001, impairment did not exist in any stratum.

Property and equipment: Buildings and equipment are stated at cost and are depreciated over the estimated useful lives of the assets using the straight-line method. Leasehold improvements are stated at cost and are amortized over the lesser of the term of the respective lease or the estimated useful life, using the straight-line method. Estimated useful lives are 15 to 40 years for buildings, 3 to 5 years for computers and other equipment and up to 8 years for leasehold improvements.

The Company capitalizes certain costs associated with software developed or obtained for internal use. These costs are amortized over 36 months using the straight-line method.

Notes payable: The Company uses short-term borrowings to finance temporary liquidity needs and various financial activities conducted by its subsidiaries. There were no notes payable outstanding at April 30, 2002 and 2001.

Revenue recognition: Service revenues consist primarily of fees for preparation of tax returns, participations in refund anticipation loans, consulting services, and brokerage commissions. Generally, service revenues are recorded in the period in which the service is performed. Commissions revenue is recognized on a trade-date basis. Revenues for services rendered in connection with the Company's Business services segment are recognized on a time and materials basis.

Interest income consists primarily of interest earned on customer margin loan balances and mortgage loans. Interest income on customer margin loan balances is recognized daily as earned based on current rates charged to customers for their margin balance.

Gains on loan sales are recognized in accordance with Statement of Financial Accounting Standards No. 140, "Accounting for Transfers and Servicing of Financial Assets and extinguishments of Liabilities," utilizing the financial-components approach which focuses on control of assets and liabilities being transferred.

Product sales consist mainly of tax preparation software, other personal productivity software, online do-it-yourself tax preparation and the Peace of Mind warranty program. Sales of tax preparation software are recognized when the product is ultimately sold to the end user and all other software sales are recognized when the product is shipped. A portion of Peace of Mind revenues representing the cost of the product is recognized when the product is sold. The remaining revenues are recognized monthly over the warranty period.

The Company records franchise royalties, based upon the contractual percentages of franchise revenues, in the period in which the franchise provides the service.

Advertising expense: The Company expenses advertising costs the first time the advertising takes place.

Taxes on earnings: The Company and its subsidiaries file a consolidated Federal income tax return on a calendar year basis.

Therefore, the current liability for taxes on earnings recorded in the balance sheet at each year-end consists principally of taxes on earnings for the period January 1 to April 30 of the respective year. Deferred taxes are provided for temporary differences between financial and tax reporting, which consist principally of deductible goodwill, residual interests, accrued expenses, deferred compensation, mortgage servicing rights and allowances for credit losses. The Company has a Tax Sharing Agreement with its former subsidiary, CompuServe Corporation ("CompuServe"), pursuant to which CompuServe generally is obligated to pay the Company (or the Company is obligated to pay CompuServe) for CompuServe's liability (or tax benefits) related to Federal, state, and local income taxes for any taxable period during which CompuServe was a subsidiary of the Company.

Disclosure regarding certain financial instruments: The carrying values reported in the balance sheet for cash equivalents, all receivables, all accounts payable, accrued liabilities and the current portion of long-term debt approximate fair market value due to the relatively short-term nature of the respective instruments.

Stock compensation plans: The Company accounts for its stock compensation plans in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"), as allowed under Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123").

Derivative activities: In fiscal 2001, the Company adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended in June 2000 ("SFAS 133") and Statement of Financial Accounting Standards No. 138, "Accounting for Derivative Instruments and Certain Hedging Activities, an amendment of FASB Statement No. 133" ("SFAS 138"). SFAS 133 and 138 established accounting and reporting standards for derivative and hedging activities, and requires

companies to record derivative instruments as assets or liabilities, measured at fair value. The recognition of gains or losses resulting from changes in the values of those derivative instruments is based on the use of each derivative instrument and whether it qualifies for hedge accounting. The Company has identified derivative instruments related to certain of its commitments to originate residential mortgage loans. The Company had no embedded derivative instruments requiring separate accounting treatment.

The Company originates residential mortgage loans with the intention of selling these loans. These commitments to fund loans are freestanding derivative instruments and do not qualify for hedge accounting treatment and, therefore, the fair value adjustments are recorded in the consolidated statement of earnings. The commitments that qualify as derivative instruments totaled $252,593 at April 30, 2001. The transition adjustment for adoption of SFAS 133 and SFAS 138 of $4,414, net of taxes, is shown as the cumulative effect of a change in accounting principle in the consolidated statement of earnings for the year ended April 30, 2001.

New accounting standards: In May 2001, the Company elected early adoption of SFAS 141 and 142, as noted above. SFAS 141 addresses financial accounting and reporting for business combinations and replaces APB Opinion No. 16, “Business Combinations” (“APB 16”). SFAS 141 no longer allows the pooling of interests method of accounting for acquisitions, provides new recognition criteria for intangible assets and carries forward without reconsideration the guidance in APB 16 related to the application of the purchase method of accounting. SFAS 142 addresses financial accounting and reporting for acquired goodwill and other intangible assets and replaces APB Opinion No. 17, “Intangible Assets.” SFAS 142 addresses how intangible assets should be accounted for upon their acquisition and after they have been initially recognized in the financial statements. Additionally, the new standard provides specific guidance on measuring goodwill for impairment annually using a two-step process.

In the year of adoption, SFAS 142 requires the first step of the goodwill impairment test to be completed within the first six months and the final step to be completed within twelve months of adoption. The first step of the test was completed during the quarter ended October 31, 2001 and no indications of goodwill impairment were found; therefore, step two of the goodwill impairment test is not applicable.

The adoption of SFAS 141 and 142 has had a significant effect on the consolidated statement of earnings for fiscal year 2002, due to the cessation of goodwill amortization beginning May 1, 2001. Had the provisions of SFAS 141 and 142 been applied for the years ended April 30, 2001 and 2000, the Company’s net earnings and net earnings per basic and diluted share would have been as follows:

	Year Ended April 30					
	2001			2000		
	Net earnings	Basic per share	Diluted per share	Net earnings	Basic per share	Diluted per share
Net earnings:						
As reported	$ 281,162	$ 1.53	$ 1.52	$ 251,895	$ 1.28	$ 1.27
Add amortization (net of tax):						
Goodwill	29,509	.16	.16	22,859	.12	.12
Assembled workforce	15,733	.09	.09	7,813	04	.04
Management infrastructure	902	–	–	677	–	–
Trade name	1,722	.01	.01	1,291	.01	.01
Adjusted net earnings	$ 329,028	$ 1.79	$ 1.78	$ 284,535	$ 1.45	$ 1.44

In May 2001, the Company adopted Emerging Issues Task Force Issue 99-20, “Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets” (“EITF 99-20”). EITF 99-20 addresses how the holder of beneficial interests should recognize cash flows on the date of the transaction, how interest income is recognized over the life of the interests and when securities must be written down to fair value due to other than temporary impairments. EITF 99-20 requires adverse changes in the timing of cash flows to be treated as impairments when the carrying value of the residual interest exceeds the fair value and requires positive changes to cash flows to be accreted into earnings over the remaining life of the underlying loans using the effective yield method. The adoption of EITF 99-20 did not have a material impact on the consolidated financial statements.

On February 1, 2002, the Company adopted Emerging Issues Task Force Issue No. 01-9, “Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor’s Products)” (“EITF 01-9”). EITF 01-9 addresses sales incentives such as

discounts, coupons or rebates offered to customers of retailers or other distributors and the income statement classifications of these items. Based on EITF 01-9, these items are recorded as a reduction of revenues. The Company has historically recorded these items as expenses in its U.S. and international tax operations. The adoption of EITF 01-9 had no impact on net earnings. All years presented have been restated to reflect the adoption of this guidance. Revenues and expenses were reduced by $43,528, $32,586 and $35,314 for fiscal years 2002, 2001 and 2000, respectively, due to the adoption of EITF 01-9.

On February 1, 2002, the Company adopted Emerging Issues Task Force Issue No. 01-14, "Income Statement Characterization of Reimbursements Received for 'Out-of-Pocket' Expenses Incurred" ("EITF 01-14"). EITF 01-14 establishes requirements that must be met to record out-of-pocket expenses as either net in revenues or as an expense. The Company has out-of-pocket expenses associated with its Business services segment and has historically recorded them net in revenues. Based on EITF 01-14, the Company now records these as gross revenues and expenses. There is no impact to net earnings as a result of adoption of EITF 01-14. All years presented have been restated to reflect the adoption of this guidance. Revenues and expenses were increased by $17,751, $12,348 and $9,056 for fiscal years 2002, 2001 and 2000, respectively, due to the adoption of EITF 01-14.

In August 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"), effective for the Company's fiscal year beginning May 1, 2002. This statement supercedes Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," ("SFAS 121") and the accounting and reporting provisions of Accounting Principles Board Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," for the disposal of a segment of a business. SFAS 144 establishes a single accounting model, based on the framework established in SFAS 121, for long-lived assets to be disposed of by sale. The adoption of SFAS 144 will not have a material effect on the consolidated financial statements.

NOTE 2: NET EARNINGS PER SHARE

Basic net earnings per share is computed using the weighted average number of common shares outstanding. The dilutive effect of potential common shares outstanding is included in diluted net earnings per share. The computations of basic and diluted net earnings per share before change in accounting principle are as follows (shares in thousands):

	Year Ended April 30		
	2002	**2001**	**2000**
Net earnings before change in accounting principle	**$ 434,405**	$ 276,748	$ 251,895
Basic weighted average shares	**182,903**	183,893	196,067
Effect of dilutive securities:			
Common stock options	**5,423**	1,241	1,790
Convertible preferred stock	**1**	1	1
Dilutive potential common shares	**188,327**	185,135	197,858
Net earnings per share before change in accounting principle:			
Basic	**$ 2.38**	$ 1.50	$ 1.28
Diluted	**2.31**	1.49	1.27

Diluted net earnings per share excludes the impact of weighted average shares issuable upon the exercise of stock options of 682,802, 13,906,602, and 6,078,390 shares for 2002, 2001 and 2000, respectively, because the options' exercise prices were greater than the average market price of the common shares and therefore, the effect would be antidilutive.

NOTE 3: CASH AND CASH EQUIVALENTS

Cash and cash equivalents is comprised of the following:

	April 30	
	2002	**2001**
Cash and interest-bearing deposits	**$ 118,382**	$ 150,273
Other interest-bearing securities	**315,845**	26,013
Securities purchased under agreements to resell	**–**	9,000
Certificates of deposit	**1,918**	2,330
	$ 436,145	$ 187,616

NOTE 4: MARKETABLE SECURITIES AVAILABLE-FOR-SALE

The amortized cost and market value of marketable securities classified as available-for-sale at April 30, 2002 and 2001 are summarized below:

	2002				2001			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Market Value**	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Market Value**
Current:								
Municipal bonds and notes	**$ –**	**$ –**	**$ –**	**$ –**	$ 8,260	$ 6	$ –	$ 8,266
	–	**–**	**–**	**–**	8,260	6	–	8,266
Noncurrent:								
Municipal bonds	**9,402**	**333**	**33**	**9,702**	26,654	352	58	26,948
Common stock	**6,699**	**270**	**1,411**	**5,558**	4,946	500	835	4,611
	16,101	**603**	**1,444**	**15,260**	31,600	852	893	31,559
Residual interests	**225,879**	**139,492**	**–**	**365,371**	243,840	7,571	12,811	238,600
	$ 241,980	**$ 140,095**	**$ 1,444**	**$ 380,631**	$ 283,700	$ 8,429	$ 13,704	$278,425

Proceeds from the sales of available-for-sale securities were $23,173, $356,192 and $211,836 during 2002, 2001 and 2000, respectively. Gross realized gains on those sales during 2002, 2001 and 2000 were $635, $17,936 and $12,177, respectively; gross realized losses were $212, $192 and $480, respectively.

Contractual maturities of available-for-sale debt securities at April 30, 2002 are presented below. Since expected maturities differ from contractual maturities due to the issuers' rights to prepay certain obligations or the seller's rights to call certain obligations, the first call date, put date or auction date for municipal bonds and notes is considered the contractual maturity date.

	Amortized Cost	**Market Value**
After one year through five years	**$ 1,014**	**$ 1,081**
After five years through 10 years	**8,388**	**8,621**
	$ 9,402	**$ 9,702**

NOTE 5: RESIDUAL INTERESTS IN SECURITIZATIONS AND MORTGAGE SERVICING RIGHTS

Beginning in April 2000, the Company entered into off-balance sheet arrangements under which the Company originates mortgage loans and sells the mortgage loans the same day the loans are funded to a third-party trust ("Trust"). As a result of the whole-loan sale to the Trust, the Company records a receivable from the Trust for a portion of the net spread that the Trust has earned while holding the mortgage loans. This receivable is included in prepaid and other current assets on the consolidated balance sheet. The Company

then pledges its receivable to a securitization trust (qualified special purpose entity) and the Trust pledges the related mortgage loans to the securitization trust to reconstitute the loans. The securitization trust then securitizes the mortgage loans. At this point, the Company's receivable is recharacterized as a residual interest from the securitized loans. The residual interest is classified as either an available-for-sale security or a trading security depending on certain criteria as established by the Company. The Company then securitizes these residual interests in net interest margin ("NIM") transactions. The Company securitized $809,226 and $380,267 of these residual interests in NIM transactions during fiscal year 2002 and 2001, respectively. The receivable from whole-loan sales of $26,057 and the pledge of this receivable of $19,960, were treated as noncash investing activities in the consolidated statement of cash flows for the year ended April 30, 2002. The receivable from the whole-loan sales of $66,587 and the pledge of this receivable of $14,206, were treated as noncash investing activities in the consolidated statement of cash flows for the year ended April 30, 2001. The Company received proceeds from NIM securitizations of $783,171 and cash flows from interest-only strips of $67,070 from the securitization trusts in fiscal 2002. The Company received proceeds from NIM securitizations of $319,620 and cash flows from interest-only strips of $16,024 from the securitization trusts in fiscal 2001. Cash received on the interest-only strips is included in maturities of available-for-sale securities on the consolidated statements of cash flows.

In connection with these off-balance sheet arrangements, the Company entered into forward loan sale commitments whereby the Company was obligated to sell, during fiscal 2001, a minimum of $2,000,000 and a maximum of $6,000,000 in mortgage loans. There was no commitment fee and the commitments are renewable annually. For fiscal 2002, the forward loan sale commitments were not renewed.

The Company securitized $3,767,010 in mortgage loans during the year ended April 30, 2000, resulting in residual interests with an allocated carrying value of $245,801. The Company securitized $248,555 of residual interests through NIM transactions. The remaining residual interests from the securitizations during 2000 of $28,042 were treated as noncash investing activities in the consolidated statement of cash flows for the year ended April 30, 2000.

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.

The fair value of residuals are 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, (6) other fees, and (7) payments made to investors on NIM bonds. The weighted average coupon on the loans sold and the coupon on the senior interests take into consideration the current and expected interest rate environment, including projected changes in future interest rates and the timing of such changes. 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, also 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.

Mortgage servicing rights are included in other assets on the consolidated balance sheet. Assumptions used in estimating the value of MSRs includes market discount rates and anticipated prepayment speeds. The prepayment speeds are estimated using the Company's historical experience and third party market sources for fixed-rated mortgages with similar coupons and prepayment reports for comparable adjustable rate mortgage loans. The fair value of MSRs at April 30, 2002, 2001 and 2000 was $81,893, $61,796 and $42,282, respectively. Additions to and amortization of MSRs for fiscal 2002 were $65,630 and $33,890, respectively. An $11,643 write-down of MSRs was taken in the third quarter of fiscal 2002 to reflect a change in the assumptions underlying the related loan portfolio. Additions to and amortization of MSRs for fiscal 2001 were $37,661 and $18,147, respectively.

Activity related to residual interests in securitizations consists of the following:

	April 30	
	2002	**2001**
Balance, beginning of year	**$ 238,600**	$ 185,945
Additions	**26,057**	66,587
Cash received	**(67,070)**	(16,024)
Accretion	**50,583**	21,824
Adjustments to fair value	**(30,987)**	(9,467)
Change in unrealized holding gain (loss)	**148,188**	(10,265)
Balance, end of year	**$ 365,371**	$ 238,600

The key assumptions the Company utilizes to estimate the cash flows of the residual interests and MSRs are as follows:

Estimated annual prepayments	23% to 90%
Estimated annual credit losses	2.5% to 6.25%
Discount rate - residual interests	12% to 37%
Discount rate - MSRs	12.8%

At April 30, 2002, the sensitivity of the current fair value of the residuals and MSRs to 10% and 20% adverse changes in the above key assumptions are as follows:

	Residential Mortgage Loans		
	Cross-collateralized	**NIM Residuals**	**Servicing Assets**
Carrying amount/fair value	**$ 65,514**	**$ 299,857**	**$ 81,893**
Weighted average life (in years)	**2.8**	**2.2**	**1.7**
Annual prepayments:			
Adverse 10% - $ impact on fair value	**$ 69**	**$ (13,141)**	**$ (11,287)**
Adverse 20% - $ impact on fair value	**92**	**(20,562)**	**(22,908)**
Annual credit losses:			
Adverse 10% - $ impact on fair value	**$ (1,397)**	**$ (28,224)**	**Not applicable**
Adverse 20% - $ impact on fair value	**(2,919)**	**(55,980)**	**Not applicable**
Discount rate:			
Adverse 10% - $ impact on fair value	**$ (1,906)**	**$ (8,139)**	**$ (1,351)**
Adverse 20% - $ impact on fair value	**(3,823)**	**(17,410)**	**(2,659)**
Variable interest rates:			
Adverse 10% - $ impact on fair value	**$ 109**	**$ (35,149)**	**Not applicable**
Adverse 20% - $ impact on fair value	**(51)**	**(72,755)**	**Not applicable**

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.

NOTE 6: RECEIVABLES

Receivables consist of the following:

	April 30	
	2002	**2001**
Business services accounts receivable	**$ 177,321**	$ 188,041
Mortgage loans held for sale	**71,855**	80,925
Participation in refund anticipation loans	**33,530**	38,824
Software receivables	**34,679**	25,537
Loans to franchises	**31,055**	28,716
Other	**83,962**	50,386
	432,402	412,429
Less: Allowance for doubtful accounts	**64,057**	47,125
	$ 368,345	$ 365,304

NOTE 7: INTANGIBLE ASSETS AND GOODWILL

Intangible assets consist of the following:

	April 30			
	2002		2001	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Customer relationships	**$409,814**	**$ (102,689)**	$ 397,049	$ (61,036)
Noncompete agreements	**26,387**	**(3,624)**	17,269	(1,842)
Trade name	**2,428**	**–**	–	–
Unamortized intangible assets:				
Trade name	**55,637**	**(4,868)**	55,637	(4,868)
Total intangible assets	**$494,266**	**$ (111,181)**	$ 469,955	$ (67,746)

Amortization of intangible assets for the year ended April 30, 2002, 2001 and 2000 was $43,435, $104,276 and $66,346, respectively. Estimated amortization of intangible assets for fiscal years 2003, 2004, 2005, 2006 and 2007 is $44,709, $44,432, $44,082, $43,452 and $40,549, respectively.

Changes in the carrying amount of goodwill by segment for the year ended April 30, 2002, are as follows:

	2001	Acquisitions	Other	2002
U.S. tax operations	$ 126,829	$ 1,916	$ –	**$ 128,745**
International tax operations	5,755	–	(468)	**5,287**
Mortgage operations	152,467	–	–	**152,467**
Investment services	169,732	–	–	**169,732**
Business services	194,834	72,791	–	**267,625**
Total goodwill	$ 649,617	$ 74,707	$ (468)	**$ 723,856**

NOTE 8: PROPERTY AND EQUIPMENT

A summary of property and equipment follows:

	April 30	
	2002	**2001**
Land	**$ 41,637**	$ 42,420
Buildings	**89,220**	83,855
Computers and other equipment	**386,546**	338,271
Capitalized software	**93,664**	67,636
Leasehold improvements	**86,318**	80,952
	697,385	613,134
Less: Accumulated depreciation and amortization	**410,885**	324,287
	$ 286,500	$ 288,847

Depreciation and amortization expense for 2002, 2001 and 2000 amounted to $110,860, $101,332 and $80,872, respectively. Included in depreciation and amortization expense is amortization of capitalized software of $25,426, $16,122 and $6,006 for fiscal 2002, 2001 and 2000, respectively. As of April 30, 2002 and 2001, the Company has property and equipment under capital lease with a cost of $27,386 and $45,913, respectively, and accumulated depreciation of $4,088 and $4,563, respectively. The Company has an agreement to lease real estate and buildings under a noncancelable capital lease for the next 18 years with an option to purchase after five years. The real estate, building and long-term debt of $14,075 related to this lease were treated as a noncash investing activity on the consolidated statement of cash flows for the year ended on April 30, 2000.

NOTE 9: LONG-TERM DEBT

On April 13, 2000, the Company issued $500,000 of 8 1/2% Senior Notes under a shelf registration statement. The Senior Notes are due April 15, 2007, and are not redeemable prior to maturity. The net proceeds of this transaction were used to repay a portion of the short-term borrowings which initially funded the acquisition of OLDE Financial Corporation and Financial Marketing Services, Inc. (collectively, “OLDE”).

On October 21, 1997, the Company issued $250,000 of 6 3/4% Senior Notes under a shelf registration statement. The Senior Notes are due November 1, 2004, and are not redeemable prior to maturity. The net proceeds of this transaction were used to repay short-term borrowings, which initially funded the acquisition of Option One Mortgage Corporation (“Option One”).

The Company had obligations related to acquisitions of accounting firms of $164,242 and $154,110 at April 30, 2002 and 2001, respectively. The current portion of these amounts is included in the current portion of long-term debt on the consolidated balance sheet. The long-term portions are due from August 2003 to December 2006.

The Company had mortgage notes and capitalized lease obligations of $16,901 at April 30, 2002 that are collateralized by land, buildings and equipment. The obligations are due at varying dates for up to 18 years.

The aggregate payments required to retire long-term debt are $59,656, $51,735, $276,254, $21,248, $508,109 and $11,041 in 2003, 2004, 2005, 2006, 2007 and beyond, respectively.

Based upon borrowing rates currently available to the Company for indebtedness with similar terms, the fair value of the long-term debt was approximately $938,920 and $907,115 at April 30, 2002 and 2001, respectively.

NOTE 10: OTHER NONCURRENT LIABILITIES

The Company has deferred compensation plans which permit directors and certain employees to defer portions of their compensation and accrue earnings on the deferred amounts. The compensation, together with Company matching of deferred amounts, has been accrued, and the only expenses related to these plans are the Company match and the earnings on the deferred amounts which are not material to the financial statements. Included in other noncurrent liabilities are $54,174 and $44,490 at April 30, 2002 and 2001, respectively, to reflect the liability under these plans. The Company purchases whole-life insurance contracts on certain related

directors and employees to recover distributions made or to be made under the plans and records the cash surrender value of the policies in other assets. If all the assumptions regarding mortality, earnings, policy dividends and other factors are realized, the Company will ultimately realize its investment plus a factor for the use of its money.

In connection with the Company's acquisition of the non-attest assets of McGladrey & Pullen, LLP ("McGladrey") in August 1999, the Company assumed certain pension liabilities related to McGladrey's retired partners. The Company makes payments in varying amounts on a monthly basis. Included in other noncurrent liabilities at April 30, 2002 and 2001 are $25,655 and $31,360, respectively, related to this liability.

NOTE 11: STOCKHOLDERS' EQUITY

On June 20, 2001, the Company's Board of Directors declared a two-for-one stock split of its Common Stock in the form of a 100% stock distribution effective August 1, 2001, to shareholders of record as of the close of business on July 10, 2001. All share and per share amounts have been adjusted to reflect the retroactive effect of the stock split.

The Company is authorized to issue 6,000,000 shares of Preferred Stock, without par value. At April 30, 2002, the Company had 5,560,833 shares of authorized but unissued Preferred Stock. Of the unissued shares, 600,000 shares have been designated as Participating Preferred Stock in connection with the Company's shareholder rights plan.

On March 8, 1995, the Board of Directors authorized the issuance of a series of 500,000 shares of nonvoting Preferred Stock designated as Convertible Preferred Stock, without par value. In April 1995, 401,768 shares of Convertible Preferred Stock were issued in connection with an acquisition. In addition, options to purchase 51,828 shares of Convertible Preferred Stock were issued as a part of the acquisition and 37,399 shares of Convertible Preferred Stock were issued in connection with these options. Each share of Convertible Preferred Stock became convertible on April 5, 1998 into four shares of Common Stock of the Company (eight shares after the August 1, 2001 stock split), subject to adjustment upon certain events. The holders of the Convertible Preferred Stock are not entitled to receive dividends paid in cash, property or securities and, in the event of any dissolution, liquidation or winding-up of the Company, will share ratably with the holders of Common Stock then outstanding in the assets of the Company after any distribution or payments are made to the holders of Participating Preferred Stock or the holders of any other class or series of stock of the Company with preference over the Common Stock.

NOTE 12: COMPREHENSIVE INCOME

The Company's comprehensive income is comprised of net earnings, foreign currency translation adjustments and the change in the net unrealized gain or loss on available-for-sale marketable securities. Included in stockholders' equity at April 30, 2002 and 2001, the net unrealized holding gain (loss) on available-for-sale securities was $85,682 and $(2,088), respectively, and the foreign currency translation adjustment was $(41,554) and $(40,679), respectively.

	Year Ended April 30		
	2002	**2001**	**2000**
Net earnings	**$ 434,405**	$ 281,162	$ 251,895
Unrealized gains on securities (less applicable taxes (benefit) of $56,156, ($3,307) and ($124)):			
Unrealized holding gains (losses) arising during period (less applicable taxes of $58,248, $4,057, and $4,426)	**92,629**	5,718	6,953
Less: Reclassification adjustment for gains included in earnings (less applicable taxes of $2,092, $7,364, and $4,550)	**(4,859)**	(10,380)	(7,147)
Foreign currency translation adjustments	**(875)**	(11,864)	(2,647)
Comprehensive income	**$ 521,300**	$ 264,636	$ 249,054

NOTE 13: EMPLOYEE BENEFIT PLANS

The Company has four stock compensation plans: the 1993 Long-Term Executive Compensation Plan, the 1989 Stock Option Plan for Outside Directors, the 1999 Stock Option Plan for Seasonal Employees, and the 2000 Employee Stock Purchase Plan (“ESPP”). All of the Company’s Stock compensation plans have been approved by the shareholders.

The 1993 plan was approved by the shareholders in September 1993 to replace the 1984 Long-Term Executive Compensation Plan, which terminated at that time except with respect to outstanding awards thereunder. Under the 1993 and 1989 plans, options may be granted to selected employees and outside directors to purchase the Company’s Common Stock for periods not exceeding 10 years at a price that is not less than 100% of fair market value on the date of the grant. The options are exercisable either (1) starting one year after the date of the grant, (2) starting one year or three years after the date of the grant on a cumulative basis at the annual rate of 33 1/3% of the total number of option shares, or (3) starting three years after the date of the grant on a cumulative basis at the rate of 40%, 30%, and 30% over the following three years. In addition, certain option grants have accelerated vesting provisions based on the Company’s stock price reaching specified levels.

The 1999 Stock Option Plan for Seasonal Employees provided for the grant of options on June 30, 2001, 2000 and 1999 at the market price on the date of the grant. The options are exercisable during September through November in each of the two years following the calendar year of the grant, subject to certain conditions.

Changes during the years ended April 30, 2002, 2001 and 2000 under the stock option plans were as follows:

	2002		2001		2000	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Options outstanding, beginning of year	**18,908,062**	**$ 20.40**	16,881,228	$ 22.11	11,452,988	$ 19.02
Options granted	**8,816,071**	**32.85**	8,611,034	16.26	10,119,604	25.08
Options exercised	**(9,659,116)**	**19.82**	(1,020,916)	17.04	(2,064,502)	18.06
Options which expired	**(2,155,080)**	**30.21**	(5,563,284)	19.78	(2,626,862)	23.25
Options outstanding, end of year	**15,909,937**	**26.33**	18,908,062	20.40	16,881,228	22.11
Shares exercisable, end of year	**6,410,311**	**20.46**	8,673,714	21.17	10,412,914	21.35
Shares reserved for future grants, end of year	**19,523,123**		8,055,518		11,037,281	

A summary of stock options outstanding and exercisable at April 30, 2002 follows:

	Outstanding			Exercisable	
Range of Exercise Prices	Number Outstanding at April 30	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable at April 30	Weighted-Average Exercise Price
$13.8125 – 19.9688	**3,703,795**	**7 years**	**$ 16.13**	**3,552,945**	**$ 16.06**
$20.0625 – 27.8125	**4,778,761**	**8 years**	**23.89**	**1,739,476**	**21.20**
$32.15 – 39.90	**7,379,381**	**7 years**	**32.90**	**1,117,391**	**33.30**
$40.00 – 52.32	**48,000**	**10 years**	**44.43**	**499**	**46.26**
	15,909,937			**6,410,311**	

The 2000 ESPP provides the option to purchase shares of the Company’s Common Stock through payroll deductions to a majority of the employees of subsidiaries of the Company. The purchase price of the stock is 90% of the lower of either the fair market value of the Company’s Common Stock on the first trading day within the Option Period or on the last trading day within the Option Period. The Option Periods are six-month periods beginning January 1 and July 1 each year. During fiscal 2002 and 2001, 97,052 and 27,345 shares, respectively, were purchased under the ESPP out of a total authorized 6,000,000 shares.

The Company applies APB 25 in accounting for its stock compensation plans, under which no compensation cost has been recognized. Had compensation cost for the stock compensation plans been determined in accordance with the fair value accounting method prescribed under SFAS 123, the Company's net earnings and net earnings per share would have been as follows:

	Year Ended April 30		
	2002	2001	2000
Net earnings:			
As reported	**$ 434,405**	$ 281,162	$ 251,895
Pro forma	**400,360**	262,701	237,544
Basic net earnings per share:			
As reported	**$ 2.38**	$ 1.53	$ 1.28
Pro forma	**2.19**	1.43	1.21
Diluted net earnings per share:			
As reported	**$ 2.31**	$ 1.52	$ 1.27
Pro forma	**2.13**	1.42	1.20

For the purposes of computing the pro forma effects of stock compensation plans under the fair value accounting method, the fair value of each stock option grant or purchase right grant was estimated on the date of the grant using the Black-Scholes option pricing model. The weighted-average fair value of stock options granted during 2002, 2001 and 2000 was $5.77, $9.34 and $9.09, respectively. The weighted-average fair value of purchase rights granted during 2002 and 2001 was $5.88 and $4.58, respectively. The following weighted-average assumptions were used for stock option grants and purchase right grants during the following periods:

	Year Ended April 30		
	2002	2001	2000
Stock option grants:			
Risk-free interest rate	**4.48%**	6.25%	5.75%
Expected life	**3 years**	3 years	3 years
Expected volatility	**28.81%**	61.21%	30.67%
Dividend yield	**1.84%**	3.39%	2.20%
Purchase right grants:			
Risk-free interest rate	**2.70%**	6.05%	not applicable
Expected life	**6 months**	4 months	not applicable
Expected volatility	**33.07%**	26.37%	not applicable
Dividend yield	**1.60%**	3.38%	not applicable

The Company has defined contribution plans covering all employees following the completion of an eligibility period. Expenses related to these plans were $15,547, $22,213 and $10,386 for fiscal 2002, 2001 and 2000, respectively.

NOTE 14: SHAREHOLDER RIGHTS PLAN

On July 25, 1998, the rights under the July 1988 shareholder rights plan, as amended, expired and the rights under a shareholder rights plan adopted by the Company's Board of Directors on March 25, 1998 became effective. Like the 1988 plan, the 1998 plan was adopted to deter coercive or unfair takeover tactics and to prevent a potential acquirer from gaining control of the Company without offering a fair price to all of the Company's stockholders. Under the 1998 plan, a dividend of one right (a "Right") per share was declared and paid on each share of the Company's Common Stock outstanding on July 25, 1998. Rights automatically attach to shares issued after such date.

Under the 1998 plan, a Right becomes exercisable when a person or group of persons acquires beneficial ownership of 15% or more of the outstanding shares of the Company's Common Stock without the prior written approval of the Company's Board of Directors

(an “Unapproved Stock Acquisition”), and at the close of business on the tenth business day following the commencement of, or the public announcement of an intent to commence, a tender offer that would result in an Unapproved Stock Acquisition. The Company may, prior to any Unapproved Stock Acquisition, amend the plan to lower such 15% threshold to not less than the greater of (1) any percentage greater than the largest percentage of beneficial ownership by any person or group of persons then known by the Company, and (2) 10% (in which case the acquisition of such lower percentage of beneficial ownership then constitutes an Unapproved Stock Acquisition and the Rights become exercisable). When exercisable, the registered holder of each Right may purchase from the Company one two-hundredth of a share of a class of the Company’s Participating Preferred Stock, without par value, at a price of $107.50, subject to adjustment. The registered holder of each Right then also has the right (the “Subscription Right”) to purchase for the exercise price of the Right, in lieu of shares of Participating Preferred Stock, a number of shares of the Company’s Common Stock having a market value equal to twice the exercise price of the Right. Following an Unapproved Stock Acquisition, if the Company is involved in a merger, or 50% or more of the Company’s assets or earning power are sold, the registered holder of each Right has the right (the “Merger Right”) to purchase for the exercise price of the Right a number of shares of the common stock of the surviving or purchasing company having a market value equal to twice the exercise price of the Right.

After an Unapproved Stock Acquisition, but before any person or group of persons acquires 50% or more of the outstanding shares of the Company’s Common Stock, the Board of Directors may exchange all or part of the then outstanding and exercisable Rights for Common Stock at an exchange ratio of one share of Common Stock per Right (the “Exchange”). Upon any such Exchange, the right of any holder to exercise a Right terminates. Upon the occurrence of any of the events giving rise to the exercisability of the Subscription Right or the Merger Right or the ability of the Board of Directors to effect the Exchange, the Rights held by the acquiring person or group under the new plan will become void as they relate to the Subscription Right, the Merger Right or the Exchange.

The Company may redeem the Rights at a price of $.000625 per Right at any time prior to the earlier of (i) an Unapproved Stock Acquisition, or (ii) the expiration of the rights. The Rights under the plan will expire on March 25, 2008, unless extended by the Board of Directors. Until a Right is exercised, the holder thereof, as such, will have no rights as a stockholder of the Company, including the right to vote or to receive dividends. The issuance of the Rights alone has no dilutive effect and does not affect reported net earnings per share.

NOTE 15: OTHER EXPENSES AND OPERATING INTEREST EXPENSE

Included in other expenses are the following:

	Year Ended April 30		
	2002	**2001**	**2000**
Legal and professional	**$ 76,630**	$ 76,232	$ 47,934
Purchased services	**74,850**	55,985	33,347
Loan servicing	**78,516**	29,396	15,821
Refund anticipation loan servicing fees	**27,312**	27,315	28,820
Travel and entertainment	**35,982**	26,668	26,695
Taxes and licenses	**14,669**	13,250	17,469
Insurance	**27,418**	20,705	14,824

Included in operating interest expense are the following:

	Year Ended April 30		
	2002	**2001**	**2000**
Margin lending	**$ 14,744**	$ 106,265	$ 41,563
Mortgage loans	**4,955**	13,727	56,988
RAL participation interests	**3,902**	3,338	5,587
Loans to franchises	**950**	2,044	1,609
Canadian cashback program	**78**	230	602
	$ 24,629	$ 125,604	$ 106,349

NOTE 16: TAXES ON EARNINGS

The components of earnings from continuing operations before income taxes upon which domestic and foreign income taxes have been provided are as follows:

	Year Ended April 30		
	2002	**2001**	**2000**
United States	**$ 709,940**	$ 466,437	$ 408,024
Foreign	**6,900**	6,641	4,242
	$ 716,840	$ 473,078	$ 412,266

Deferred income tax provisions (benefits) reflect the impact of temporary differences between amounts of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws. The current and deferred components of taxes on earnings from continuing operations are comprised of the following:

	Year Ended April 30		
	2002	**2001**	**2000**
Current:			
Federal	**$ 227,185**	$ 204,060	$ 163,535
State	**22,453**	27,701	23,036
Foreign	**2,661**	3,439	3,898
	252,299	235,200	190,469
Deferred:			
Federal	**26,973**	(33,724)	(24,412)
State	**2,828**	(4,578)	(3,438)
Foreign	**335**	(568)	(2,248)
	30,136	(38,870)	(30,098)
	$ 282,435	$ 196,330	$ 160,371

Unremitted earnings of foreign subsidiaries aggregated $82,913 at April 30, 2002. Management intends to indefinitely reinvest foreign earnings, therefore, a provision has not been made for income taxes which might be payable upon remittance of such earnings. Moreover, due to the availability of foreign income tax credits, management believes the amount of federal income taxes would be immaterial in the event foreign earnings were repatriated.

The following table reconciles the U.S. Federal income tax rate to the Company’s effective tax rate:

	Year Ended April 30		
	2002	**2001**	**2000**
Statutory rate	**35.0%**	35.0%	35.0%
Increases (reductions) in income taxes resulting from:			
State income taxes, net of Federal income tax benefit	**2.3%**	3.2%	3.1%
Amortization of intangibles	**1.5%**	3.6%	2.6%
Other	**0.6%**	(0.3%)	(1.8%)
Effective rate	**39.4%**	41.5%	38.9%

A summary of deferred taxes follows:

	April 30	
	2002	**2001**
Gross deferred tax assets:		
Accrued expenses	**$ 19,114**	$ 31,923
Allowance for credit losses	**7,422**	18,406
Current	**26,536**	50,329
Residual interest income	**34,747**	42,048
Deferred compensation	**21,585**	20,439
Depreciation	**6,375**	8,128
Amortization of intangibles	**28**	3,258
Noncurrent	**62,735**	73,873
Gross deferred tax liabilities:		
Mark-to-market adjustments	**(7,002)**	(3,886)
Accrued income	**(1,098)**	(964)
Current	**(8,100)**	(4,850)
Mortgage servicing rights	**(30,002)**	(22,944)
Unrealized gain on NIM residual interests	**(51,047)**	–
Noncurrent	**(81,049)**	(22,944)
Net deferred tax assets	**$ 122**	$ 96,408

NOTE 17: ACQUISITIONS

In December 2001, the Company acquired a controlling interest in MyBenefitSource, Inc., an integrated payroll and benefits processing company, with an option to acquire the remaining shares. The Company also acquired 100% of Equico Resources, LLC (“Equico”), a valuation, merger and acquisition consulting company. These acquisitions were accounted for as purchases, and the results of operations for these businesses have been consolidated in the segment’s financial results since acquisition. Cash payments related to these acquisitions totaled $28,510 with additional cash payments of $31,000 over the next five years. The purchase agreements also provide for possible future contingent consideration of approximately $45,000 and is based on achieving certain revenue, profitability and working capital targets over the next six years, and such consideration will be treated as purchase price if paid. The following intangible assets were valued in the acquisitions: customer relationships of $4,126, noncompete agreements of $5,892 and trade names of $2,428. The weighted average life of the intangible assets is five years. Goodwill recognized in these transactions was $40,312, which is not deductible for tax purposes. The goodwill is included in the Business services segment.

During fiscal year 2002, the Company acquired six accounting firms, giving the Business services segment a geographic presence in Seattle and San Francisco, as well as expanding its existing presence in New York City and Dallas. Cash payments related to these acquisitions totaled $6,899, with additional cash payments of $26,125 over the next five years. Each acquisition was accounted for as a purchase and, accordingly, results for each acquisition are included since the date of acquisition. The purchase agreements also provide for possible future contingent consideration of approximately $6,567 and is based on achieving certain revenue and profitability over the next five years, and such consideration will be treated as purchase price if paid. The following intangible assets were valued in the acquisition: customer relationships of $9,314 and noncompete agreements of $3,584. The weighted average life of the intangible assets is eleven years. Goodwill recognized in these transactions was $15,842, of which $8,834 is expected to be fully deductible for tax purposes. The goodwill is included in the Business services segment.

During fiscal year 2001, the Company acquired several accounting firms. The purchase prices aggregated $54,443. Each acquisition was accounted for as a purchase and, accordingly, results for each acquisition are included since the date of acquisition. The excess of cost over fair value of net tangible assets acquired was $54,322.

On December 1, 1999, the Company completed the purchase of all the issued and outstanding shares of capital stock of OLDE for $850,000 in cash plus net tangible book value payments of $48,472. The purchase agreement also provides for possible future consideration payable for up to five years after the acquisition based upon revenues generated from certain online brokerage services and such consideration will be treated as purchase price when paid. The transaction was accounted for as a purchase and, accordingly, OLDE's results are included since the date of acquisition. Liabilities assumed of $1,774,156 were treated as a noncash investing activity in the consolidated statement of cash flows for the year ended April 30, 2000. The excess of cost over fair value of net tangible assets acquired was $471,133 at April 30, 2000. The acquisition was initially financed with short-term borrowings and a portion of these borrowings were repaid with the issuance of $500,000 in Senior Notes in the fourth quarter of fiscal 2000.

The following unaudited pro forma summary combines the consolidated results of operations of the Company and OLDE as if the acquisition had occurred on May 1, 1999, after giving effect to certain adjustments, including amortization of intangible assets, increased interest expense on the acquisition debt and the related income tax effects. The pro forma information is presented for informational purposes only and is not necessarily indicative of what would have occurred if the acquisition had been made as of that date. In addition, the pro forma information is not intended to be a projection of future results.

(Unaudited)	Year Ended April 30, 2000
Revenues	$ 2,678,022
Net earnings	218,275
Basic net earnings per share	$1.11
Diluted net earnings per share	1.10

On August 2, 1999, the Company, through a subsidiary, RSM McGladrey, Inc. ("RSM McGladrey"), completed the purchase of substantially all of the non-attest assets of McGladrey & Pullen, LLP. The purchase price was $240,000 in cash payments over four years and the assumption of certain pension liabilities with a present value, at the date of acquisition, of $52,728. The purchase agreement also provides for possible future contingent consideration based on a calculation of earnings in year two, three and four after the acquisition and such consideration will be treated as purchase price when paid. In addition, the Company made cash payments of $65,453 for outstanding accounts receivable and work-in-process that have been repaid to the Company as RSM McGladrey collected these amounts in the ordinary course of business. The acquisition was accounted for as a purchase, and accordingly, RSM McGladrey's results are included since the date of acquisition. The present value of the additional cash payments due over four years, the present value of the pension liability and other liabilities assumed of $206,784, were treated as noncash investing activities in the consolidated statement of cash flows for the year ended April 30, 2000. The excess of cost over the fair value of net tangible assets acquired was $242,266.

During fiscal year 2000, the Company acquired several accounting firms. The purchase prices aggregated $18,494. Each acquisition was accounted for as a purchase and, accordingly, results for each acquisition are included since the date of acquisition. The excess of cost over fair value of net tangible assets acquired was $17,914.

On October 7, 1999, the Company acquired one of its major tax franchises. The Company issued 475,443 shares of its common stock from treasury, with a value of $21,000, for the purchase. The acquisition was accounted for as a purchase and, accordingly, its results are included since the date of acquisition. The issuance of Common Stock was treated as a noncash investing activity in the consolidated statement of cash flows for the year ended April 30, 2000. The excess of cost over fair value of net tangible assets acquired was $34,919.

During fiscal 2002, 2001 and 2000, the Company made other acquisitions which were accounted for as purchases with cash payments totaling $1,579, $2,897 and $3,591, respectively. Their operations, which are not material, are included in the consolidated statements of earnings since the date of acquisition.

NOTE 18: SALE OF SUBSIDIARIES

On December 31, 2000, the Company completed the sale of the assets of KSM Business Services, part of the Company's Business services segment. The Company recorded a gain before taxes of $2,040 on the transaction.

In March 2000, the Company sold certain assets related to its Mortgage operations segment. The Company recorded a pretax loss of $14,501 on the transaction, included in other expenses on the consolidated statements of earnings for the year ended April 30, 2000.

NOTE 19: COMMITMENTS AND CONTINGENCIES

Substantially all of the operations of the Company's subsidiaries are conducted in leased premises. Most of the operating leases are for a one-year period with renewal options of one to three years and provide for fixed monthly rentals. Lease commitments at April 30, 2002, for fiscal 2003, 2004, 2005, 2006, 2007 and beyond aggregated $170,959, $132,026, $87,414, $44,785, $28,625 and $61,392 respectively. The Company's rent expense for the years 2002, 2001 and 2000 aggregated $167,687, $156,325 and $135,823, respectively.

The Company has commitments to fund mortgage loans to customers as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses. The commitments to fund loans amounted to $1,726,620 and $1,518,456 at April 30, 2002 and 2001, respectively. External market forces impact the probability of commitments being exercised, and therefore, total commitments outstanding do not necessarily represent future cash requirements.

At April 30, 2002, the Company maintained a $1,930,000 backup credit facility to support various financial activities conducted by its subsidiaries through a commercial paper program. The annual commitment fee required to support the availability of this facility is nine and one-half basis points per annum on the unused portion of the facility. Among other provisions, the credit agreement limits the Company's indebtedness.

The Company maintains a revolving credit facility in Canada to support a commercial paper program with varying borrowing levels throughout the year, reaching its peak during January through April for the Canadian tax season.

The Company is responsible for servicing mortgage loans for others of $19,464,912, subservicing loans of $4,296,760, and the master servicing of $350,133 previously securitized mortgage loans held in trust at April 30, 2002. Fiduciary bank accounts that are maintained on behalf of investors and for impounded collections were $519,687 at April 30, 2002. These bank accounts are not assets of the Company and are not reflected in the accompanying consolidated financial statements.

As of April 30, 2002, the Company had pledged securities totaling $42,767 that satisfied margin deposit requirements of $38,761.

The Company is required, in the event of non-delivery of customers' securities owed to it by other broker-dealers or by its customers, to purchase identical securities in the open market. Such purchases could result in losses not reflected in the accompanying consolidated financial statements.

The Company monitors the credit standing of brokers and dealers and customers with whom it does business. In addition, the Company monitors the market value of collateral held and the market value of securities receivable from others, and seeks to obtain additional collateral if insufficient protection against loss exists.

The Company has commitments to fund certain attest entities, that are not consolidated, related to accounting firms it has acquired. The Company is also committed to loan up to $40,000 to McGladrey & Pullen, LLP on a revolving basis through July 31, 2004, subject to certain termination clauses. This revolving facility bears interest at prime rate plus four and one-half percent on the outstanding amount and a commitment fee of one-half percent per annum on the unused portion of the commitment.

The Company is involved in various legal proceedings which are ordinary routine litigation incident to its business, many of which are covered in whole or in part by insurance. It is the Company's policy to accrue for amounts related to these legal matters if it is probable that a liability has been incurred and an amount is reasonably estimable.

Under the Company's Guarantee and Peace of Mind warranty programs, the Company may be liable for certain interest, penalties and/or additional taxes due. The Company is effectively self-insured related to these risks and claims made in excess of self-insurance levels are fully insured by a third-party carrier.

In the regular course of business, the Company is subject to routine examinations by Federal, state and local taxing authorities. In management's opinion, the disposition of matters raised by such taxing authorities, if any, in such tax examinations would not have a material adverse impact on the Company's consolidated financial position or results of operations.

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 the class action pending in state court, the court issued, in November 2000 its order approving the settlement pursuant to which the defendants agreed to pay a gross settlement amount of $9,500. 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 agreement to settle 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 Florida State Board of Administration opted out of the class action settlement and that litigation continued separately from the state court class action. The parties reached a settlement that disposed of the case in its entirety with the payment by the defendants of $500. Such settlement was paid in its entirety by the Company's insurance carrier and is not an admission of the validity of any claim or fact alleged by the Florida State Board of Administration. With this settlement, the CompuServe litigation relating to the 1996 initial public offering is concluded.

The Company is exposed to on-balance sheet credit risk related to its receivables. Mortgage loans made to subprime borrowers present a higher level of risk of default than conforming loans. These loans also involve additional liquidity risk due to a more limited secondary market than for conforming loans. While the Company believes that the underwriting procedures and appraisal processes it employs enable it to mitigate these risks, no assurance can be given that such procedures or processes will be adequate protection against these risks. The Company is exposed to off-balance sheet credit risk related to mortgage loan receivables which the Company has committed to fund.

NOTE 20: QUARTERLY FINANCIAL DATA (UNAUDITED)

	Fiscal 2002 Quarter Ended			
	April 30, 2002	Jan. 31, 2002	Oct. 31, 2001	July 31, 2001
Revenues	**$ 1,881,327**	**$ 733,532**	**$ 373,896**	**$ 328,981**
Earnings (loss) before income taxes (benefits)	**765,881**	**49,774**	**(47,077)**	**(51,738)**
Taxes (benefits) on earnings	**302,297**	**20,158**	**(19,066)**	**(20,954)**
Net earnings (loss) before change in accounting	**463,584**	**29,616**	**(28,011)**	**(30,784)**
Cumulative effect of change in accounting principle	**–**	**–**	**–**	**–**
Net earnings (loss)	**$ 463,584**	**$ 29,616**	**$ (28,011)**	**$ (30,784)**
Basic net earnings per share:				
Net earnings (loss) before change in accounting	**$ 2.54**	**$ .16**	**$ (.15)**	**$ (.17)**
Net earnings (loss)	**$ 2.54**	**$ .16**	**$ (.15)**	**$ (.17)**
Diluted net earnings per share:				
Net earnings (loss) before change in accounting	**$ 2.46**	**$ .16**	**$ (.15)**	**$ (.17)**
Net earnings (loss)	**$ 2.46**	**$ .16**	**$ (.15)**	**$ (.17)**

[Additional columns below]

[Continued from above table, first column(s) repeated]

	Fiscal 2001 Quarter Ended			
	April 30, 2001	Jan. 31, 2001	Oct. 31, 2000	July 31, 2000
Revenues	$ 1,683,851	$ 648,170	$ 338,308	$ 311,008
Earnings (loss) before income taxes (benefits)	641,635	7,792	(86,356)	(89,993)
Taxes (benefits) on earnings	267,946	3,332	(36,701)	(38,247)

Net earnings (loss) before change in accounting	373,689	4,460	(49,655)	(51,746)
Cumulative effect of change in accounting principle	4,414	–	–	–
Net earnings (loss)	$ 378,103	$ 4,460	$ (49,655)	$ (51,746)
Basic net earnings per share:				
Net earnings (loss) before change in accounting	$ 2.04	$ .02	$ (.27)	$ (.28)
Net earnings (loss)	$ 2.06	$ .02	$ (.27)	$ (.28)
Diluted net earnings per share:				
Net earnings (loss) before change in accounting	$ 2.00	$ .02	$ (.27)	$ (.28)
Net earnings (loss)	$ 2.02	$ .02	$ (.27)	$ (.28)

The accumulation of four quarters in fiscal 2002 and 2001 for net earnings per share may not equal the related per share amounts for the years ended April 30, 2002 and 2001 due to the repurchase of treasury shares, the timing of the exercise of stock options, and the antidilutive effect of stock options in the first two quarters.

NOTE 21: SEGMENT INFORMATION

The principal business activity of the Company's operating subsidiaries is providing tax and financial services to the general public. Management has determined the reportable segments identified below according to differences in types of services, geographic locations, and how operational decisions are made. Geographical information is presented within the segment data below. A majority of the foreign countries in which subsidiaries of the Company operate, which are individually immaterial, are included in International tax operations. Included below is the financial information on each segment that is used by management to evaluate the segment's results.

On May 1, 2001, the Company adopted a new methodology for allocation of corporate services and support costs to business units. The change was made to more accurately reflect each business segment's performance. Fiscal year 2001 segment results have been adjusted to reflect this allocation methodology. Fiscal year 2000 has not been adjusted as the effects of the new methodology was not material to segment pretax earnings or operating margins. The Company operates in the following reportable segments:

U.S. tax operations: This segment is primarily engaged in providing tax return preparation, filing, and related services to the general public 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 – TaxCut® from H&R Block, and other personal productivity software offered to the general public, and offers online tax preparation through a tax professional (whereby the client fills out an online tax organizer and sends it to a tax professional for preparation), online do-it-yourself-tax preparation, online professional tax review and online tax advice to the general public through the hrblock.com website. Revenues of this segment are seasonal in nature.

International tax operations: This segment is primarily engaged in providing local tax return preparation, filing, and related services to the general public in Canada, Australia and the United Kingdom. In addition, International tax operations has company-owned and franchise offices in eight 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 of this segment are seasonal in nature.

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

Investment services: This segment is primarily engaged in offering investment advice and related investment services and securities products through H&R Block Financial Advisors, Inc., a full-service securities broker, to the general public. Financial planning and investment advice are offered through H&R Block Financial Advisors branch 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, consulting, payroll, employee benefits and capital markets services to business clients and tax, estate planning, financial planning, wealth management and insurance services to individuals. This segment offers services through offices located throughout the United States. Revenues of this segment are seasonal in nature.

Corporate operations: This segment consists primarily of corporate support departments which provide services to the Company's operating segments. These support departments consist of marketing, information technology, facilities, human resources, supply, executive, legal, finance and corporate communications. These support department costs are largely allocated to the Company's operating segments. The Company's captive insurance and franchise financing subsidiaries are also included within this segment.

Identifiable assets: Identifiable assets are those assets, including the excess of cost over fair value of net tangible assets acquired, associated with each reportable segment. The remaining assets are classified as corporate assets and consist primarily of cash, marketable securities and corporate equipment.

Information concerning the Company's operations by reportable segment as of and for the years ended April 30, 2002, 2001 and 2000 is as follows:

	2002	2001	2000
REVENUES:			
U.S. tax operations	**$ 1,830,752**	$ 1,622,636	$ 1,397,475
International tax operations	**78,710**	78,469	79,814
Mortgage operations	**734,890**	415,802	355,429
Investment services	**250,685**	472,425	268,376
Business services	**416,926**	386,168	319,923
Corporate operations	**5,773**	5,837	4,668
Total revenues	**$ 3,317,736**	$ 2,981,337	$ 2,425,685
EARNINGS BEFORE INCOME TAXES:			
U.S. tax operations	**$ 533,468**	$ 434,067	$ 319,992
International tax operations	**7,093**	6,024	4,869
Mortgage operations	**339,388**	137,992	88,574
Investment services	**(54,862)**	9,298	41,226
Business services	**22,716**	15,953	17,111
Corporate operations	**(56,133)**	(30,899)	(22,476)
Interest expense on acquisition debt	**(79,002)**	(98,759)	(56,118)
	712,668	473,676	393,178
Investment income, net	**3,097**	5,977	9,840
Intercompany interest	**1,075**	(6,575)	9,248
Earnings before income taxes	**$ 716,840**	$ 473,078	$ 412,266
DEPRECIATION AND AMORTIZATION:			
U.S. tax operations	**$ 59,258**	$ 69,891	$ 66,523
International tax operations	**4,854**	5,429	5,494
Mortgage operations	**14,753**	22,813	20,311
Investment services	**52,182**	67,289	25,663
Business services	**21,390**	38,821	29,060
Corporate operations	**2,949**	1,365	167
Total depreciation and amortization	**$ 155,386**	$ 205,608	$ 147,218
IDENTIFIABLE ASSETS:			
U.S. tax operations	**$ 324,037**	$ 326,111	$ 348,726
International tax operations	**47,820**	42,627	59,725
Mortgage operations	**1,233,925**	938,379	685,292
Investment services	**1,656,469**	2,011,517	3,678,614
Business services	**665,018**	575,998	517,134
Corporate operations	**303,522**	219,073	423,378
Total assets	**$ 4,230,791**	$ 4,113,705	$ 5,712,869
CAPITAL EXPENDITURES:			
U.S. tax operations	**$ 58,683**	$ 42,260	$ 95,338
International tax operations	**4,407**	2,328	3,641
Mortgage operations	**23,087**	34,423	15,915
Investment services	**10,268**	3,557	21,582
Business services	**10,676**	9,762	9,065
Corporate operations	**4,654**	81	212
Total capital expenditures	**$ 111,775**	$ 92,411	$ 145,753

NOTE 22: CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

Block Financial Corporation ("BFC") is an indirect, wholly owned subsidiary of the Company. BFC is the Issuer and the Company is the Guarantor of the $250,000 6 3/4% Senior Notes issued on October 21, 1997 and of the $500,000 8 1/2% Senior Notes issued on April 13, 2000. The Company's guarantee is full and unconditional. The following condensed consolidating financial statements present separate information for BFC, the Company and for the Company's other subsidiaries, and should be read in conjunction with the consolidated financial statements of the Company.

These condensed consolidating financial statements have been prepared using the equity method of accounting. Earnings of subsidiaries are, therefore, reflected in the Company's investment in subsidiaries account. The elimination entries eliminate investments in subsidiaries, related stockholder's equity and other intercompany balances and transactions.

CONDENSED CONSOLIDATING STATEMENT OF EARNINGS

Year Ended April 30, 2002	H&R Block, Inc. (Guarantor)	BFC (Subsidiary Issuer)	Other Subsidiaries	Eliminations	Consolidated H&R Block
Total revenues	$ –	$ 1,219,990	$ 2,112,438	$ (14,692)	$ 3,317,736
Expenses:					
Compensation and benefits	–	334,146	974,622	(63)	1,308,705
Occupancy and equipment	–	65,305	240,015	67	305,387
Interest	–	100,800	15,341	–	116,141
Depreciation and amortization	–	69,497	85,889	–	155,386
Marketing and advertising	–	20,642	136,342	(1,255)	155,729
Supplies, freight and postage	–	15,000	60,804	(94)	75,710
Other	–	313,475	184,993	(13,218)	485,250
	–	918,865	1,698,006	(14,563)	2,602,308
Operating earnings	–	301,125	414,432	(129)	715,428
Other income, net	716,840	(2,028)	3,440	(716,840)	1,412
Earnings before income taxes	716,840	299,097	417,872	(716,969)	716,840
Taxes on earnings	282,435	123,884	158,602	(282,486)	282,435
Net earnings	$ 434,405	$ 175,213	$ 259,270	$ (434,483)	$ 434,405

CONDENSED CONSOLIDATING STATEMENT OF EARNINGS

Year Ended April 30, 2001	H&R Block, Inc. (Guarantor)	BFC (Subsidiary Issuer)	Other Subsidiaries	Eliminations	Consolidated H&R Block
Total revenues	$ –	$ 1,072,855	$ 1,920,398	$ (11,916)	$ 2,981,337
Expenses:					
Compensation and benefits	–	299,263	893,031	–	1,192,294
Occupancy and equipment	–	56,093	227,088	–	283,181
Interest	–	223,816	18,735	–	242,551
Depreciation and amortization	–	90,660	114,948	–	205,608
Marketing and advertising	–	30,824	80,606	(457)	110,973
Supplies, freight and postage	–	20,949	49,491	–	70,440
Other	–	240,474	182,434	(11,684)	411,224
	–	962,079	1,566,333	(12,141)	2,516,271
Operating earnings	–	110,776	354,065	225	465,066
Other income, net	480,209	(29)	8,041	(480,209)	8,012
Earnings before income taxes	480,209	110,747	362,106	(479,984)	473,078
Taxes on earnings	199,047	61,814	134,430	(198,961)	196,330
Net earnings from continuing operations before change in accounting principle	281,162	48,933	227,676	(281,023)	276,748
Change in accounting principle	–	4,414	–	–	4,414

Net earnings	$ 281,162	$ 53,347	$ 227,676	$ (281,023)	$ 281,162

CONDENSED CONSOLIDATING STATEMENT OF EARNINGS

	Year Ended April 30, 2000				
	H&R Block, Inc. (Guarantor)	BFC (Subsidiary Issuer)	Other Subsidiaries	Eliminations	Consolidated H&R Block
Total revenues	$ –	$ 748,523	$ 1,688,452	$ (11,290)	$ 2,425,685
Expenses:					
Compensation and benefits	–	199,124	764,412	–	963,536
Occupancy and equipment	–	29,264	223,907	–	253,171
Interest	–	156,123	(1,096)	–	155,027
Depreciation and amortization	–	47,510	99,708	–	147,218
Marketing and advertising	–	35,714	69,655	–	105,369
Supplies, freight and postage	–	11,490	53,109	–	64,599
Other	–	158,200	187,767	(11,290)	334,677
	–	637,425	1,397,462	(11,290)	2,023,597
Operating earnings	–	111,098	290,990	–	402,088
Other income, net	412,266	113	10,065	(412,266)	10,178
Earnings before income taxes	412,266	111,211	301,055	(412,266)	412,266
Taxes on earnings	160,371	52,494	107,877	(160,371)	160,371
Net earnings	$ 251,895	$ 58,717	$ 193,178	$ (251,895)	$ 251,895

CONDENSED CONSOLIDATING BALANCE SHEET

	April 30, 2002				
	H&R Block, Inc. (Guarantor)	BFC (Subsidiary Issuer)	Other Subsidiaries	Eliminations	Consolidated H&R Block
Cash and cash equivalents	**$ –**	**$ 197,959**	**$ 238,186**	**$ –**	**$ 436,145**
Cash and cash equivalents – restricted	**–**	**140,180**	**11,993**	**–**	**152,173**
Receivables from customers, brokers, dealers and clearing organizations	**–**	**844,538**	**–**	**–**	**844,538**
Receivables	**151**	**157,747**	**210,447**	**–**	**368,345**
Intangible assets and goodwill	**–**	**544,391**	**562,550**	**–**	**1,106,941**
Investment in subsidiaries	**2,973,936**	**215**	**1,609**	**(2,973,936)**	**1,824**
Other assets	**–**	**1,006,531**	**314,381**	**(87)**	**1,320,825**
Total assets	**$ 2,974,087**	**$ 2,891,561**	**$ 1,339,166**	**$ (2,974,023)**	**$ 4,230,791**
Accounts payable to customers, brokers and dealers	**$ –**	**$ 903,201**	**$ –**	**$ –**	**$ 903,201**
Long-term debt	**–**	**746,900**	**121,487**	**–**	**868,387**
Other liabilities	**6,032**	**335,687**	**748,347**	**(283)**	**1,089,783**
Net intercompany advances	**1,598,635**	**373,975**	**(1,972,935)**	**325**	**–**
Stockholders' equity	**1,369,420**	**531,798**	**2,442,267**	**(2,974,065)**	**1,369,420**
Total liabilities and stockholders' equity	**$ 2,974,087**	**$ 2,891,561**	**$ 1,339,166**	**$ (2,974,023)**	**$ 4,230,791**

CONDENSED CONSOLIDATING BALANCE SHEET

	April 30, 2001				
	H&R Block, Inc. (Guarantor)	BFC (Subsidiary Issuer)	Other Subsidiaries	Eliminations	Consolidated H&R Block
Cash and cash equivalents	$ –	$ 82,942	$ 104,674	$ –	$ 187,616
Cash and cash equivalents – restricted	–	84,197	–	–	84,197
Receivables from customers, brokers, dealers and clearing organizations	–	1,310,804	–	–	1,310,804
Receivables	–	164,490	200,814	–	365,304
Intangible assets and goodwill	–	573,691	478,135	–	1,051,826
Investment in subsidiaries	2,452,643	215	262	(2,452,643)	477
Other assets	–	720,004	394,431	(954)	1,113,481
Total assets	$ 2,452,643	$ 2,936,343	$ 1,178,316	$ (2,453,597)	$ 4,113,705
Accounts payable to customers, brokers and dealers	$ –	$ 1,058,000	$ –	$ –	$ 1,058,000
Long-term debt	–	746,250	124,724	–	870,974
Other liabilities	4,763	220,928	782,058	3,241	1,010,990
Net intercompany advances	1,274,139	637,487	(1,907,206)	(4,420)	–
Stockholders' equity	1,173,741	273,678	2,178,740	(2,452,418)	1,173,741
Total liabilities and stockholders'equity	$ 2,452,643	$ 2,936,343	$ 1,178,316	$ (2,453,597)	$ 4,113,705

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

	Year Ended April 30, 2002				
	H&R Block, Inc. (Guarantor)	BFC (Subsidiary Issuer)	Other Subsidiaries	Eliminations	Consolidated H&R Block
Net cash provided by operating activities	$ 58,927	$ 357,698	$ 324,821	$ –	$ 741,446
Cash flows from investing activities:					
Purchases of available-for-sale securities	–	–	(7,241)	–	(7,241)
Maturities of available-for-sale securities	–	67,070	8,250	–	75,320
Sales of available-for-sale securities	–	–	23,173	–	23,173
Purchases of property and equipment, net	–	(36,434)	(75,341)	–	(111,775)
Payments made for business acquisitions	–	–	(46,738)	–	(46,738)
Proceeds from sale of subsidiary	–	–	121	–	121
Net intercompany advances	324,503	(269,248)	(55,255)	–	–
Other, net	–	(4,069)	12,176	–	8,107
Net cash provided by (used in) investing activities	324,503	(242,681)	(140,855)	–	(59,033)
Cash flows from financing activities:					
Repayments of notes payable	–	(10,622,011)	–	–	(10,622,011)
Proceeds from issuance of notes payable	–	10,622,011	–	–	10,622,011
Payments on acquisition debt	–	–	(50,594)	–	(50,594)
Dividends paid	(115,725)	–	–	–	(115,725)
Payments to acquire treasury shares	(462,938)	–	–	–	(462,938)
Proceeds from issuance of common stock	195,233	–	–	–	195,233
Other, net	–	–	140	–	140
Net cash used in financing activities	(383,430)	–	(50,454)	–	(433,884)
Net increase in cash and cash equivalents	–	115,017	133,512	–	248,529
Cash and cash equivalents at beginning of the year	–	82,942	104,674	–	187,616
Cash and cash equivalents at end of the year	$ –	$ 197,959	$ 238,186	$ –	$ 436,145

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

	Year Ended April 30, 2001				
	H&R Block, Inc. (Guarantor)	BFC (Subsidiary Issuer)	Other Subsidiaries	Eliminations	Consolidated H&R Block
Net cash provided by (used in) operating activities	$ 2,235	$ (237,185)	$ 483,301	$ –	$ 248,351
Cash flows from investing activities:					
Purchases of available-for-sale securities	–	–	(10,636)	–	(10,636)
Maturities of available-for-sale securities	–	16,024	5,500	–	21,524
Sales of available-for-sale securities	–	319,620	36,572	–	356,192
Purchases of property and equipment, net	–	(47,462)	(44,949)	–	(92,411)
Payments made for business acquisitions	–	–	(21,143)	–	(21,143)
Proceeds from sale of subsidiary	–	–	23,200	–	23,200
Net intercompany advances	308,656	77,644	(386,300)	–	–
Other, net	–	14,458	(36,427)	–	(21,969)
Net cash provided by (used in) investing activities	308,656	380,284	(434,183)	–	254,757
Cash flows from financing activities:					
Repayments of notes payable	–	(18,219,741)	–	–	(18,219,741)
Proceeds from issuance of notes payable	–	17,935,944	–	–	17,935,944
Payments on acquisition debt	–	–	(68,743)	–	(68,743)
Dividends paid	(108,374)	–	–	–	(108,374)
Payments to acquire treasury shares	(222,895)	–	–	–	(222,895)
Proceeds from issuance of common stock	19,550	–	–	–	19,550
Other, net	828	–	1,221	–	2,049
Net cash used in financing activities	(310,891)	(283,797)	(67,522)	–	(662,210)
Net decrease in cash and cash equivalents	–	(140,698)	(18,404)	–	(159,102)
Cash and cash equivalents at beginning of the year	–	223,640	123,078	–	346,718
Cash and cash equivalents at end of the year	$ –	$ 82,942	$ 104,674	$ –	$ 187,616

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

	Year Ended April 30, 2000				
	H&R Block, Inc. (Guarantor)	BFC (Subsidiary Issuer)	Other Subsidiaries	Eliminations	Consolidated H&R Block
Net cash provided by operating activities	$ 3,736	$ 143,334	$ 305,917	$ –	$ 452,987
Cash flows from investing activities:					
Purchases of available-for-sale securities	–	–	(14,281)	–	(14,281)
Maturities of available-for-sale securities	–	10,845	57,416	–	68,261
Sales of available-for-sale securities	–	191,839	19,997	–	211,836
Purchases of property and equipment, net	–	(42,624)	(103,129)	–	(145,753)
Payments made for business acquisitions	–	(817,587)	(154,215)	–	(971,802)
Net intercompany advances	119,697	8,081	(127,778)	–	–
Other, net	–	6,068	(4,268)	–	1,800
Net cash provided by (used in) investing activities	119,697	(643,378)	(326,258)	–	(849,939)
Cash flows from financing activities:					
Repayments of notes payable	–	(50,800,661)	–	–	(50,800,661)
Proceeds from issuance of notes payable	–	51,012,519	–	–	51,012,519
Proceeds from issuance of long-term debt	–	495,800	–	–	495,800
Payments on acquisition debt	–	–	(4,730)	–	(4,730)
Dividends paid	(105,480)	–	–	–	(105,480)
Payments to acquire treasury shares	(50,654)	–	–	–	(50,654)
Proceeds from issuance of common stock	33,222	–	–	–	33,222
Other, net	(521)	–	(29,065)	–	(29,586)
Net cash provided by (used in) financing activities	(123,433)	707,658	(33,795)	–	550,430
Net increase (decrease) in cash and cash equivalents	–	207,614	(54,136)	–	153,478
Cash and cash equivalents at beginning of the year	–	16,026	177,214	–	193,240
Cash and cash equivalents at end of the year	$ –	$ 223,640	$ 123,078	$ –	$ 346,718

MANAGEMENT'S REPORT & REPORT OF INDEPENDENT ACCOUNTANTS

MANAGEMENT'S REPORT

The financial information in this Annual Report, including the consolidated financial statements, has been prepared by the management of H&R Block, Inc. Management believes the information presented in the Annual Report is consistent with the financial statements, the financial statements are prepared in accordance with generally accepted accounting principles, and the financial statements do not contain material misstatements due to fraud or error. Where appropriate, the financial statements reflect management's best estimates and judgments.

Management also is responsible for maintaining a system of internal accounting controls with the objectives of providing reasonable assurance that the Company's assets are safeguarded against material loss from unauthorized use or disposition, and that authorized transactions are properly recorded to permit the preparation of accurate financial data. However, limitations exist in any system of internal controls based on recognition that the cost of the system should not exceed its benefits. The Company believes its system of accounting controls, of which its internal auditing function is an integral part, accomplishes the stated objectives.

PricewaterhouseCoopers LLP, independent accountants, audited H&R Block's 2002, 2001 and 2000 consolidated financial statements and issued opinions thereon. Their audits were made in accordance with generally accepted auditing standards and included an objective, independent review of the system of internal controls to the extent necessary to express an opinion on the financial statements.

The Audit Committee of the Board of Directors, composed of outside directors, meets periodically with management, the independent accountants and the internal auditor to review matters relating to the Company's annual financial statements, internal audit activities, internal accounting controls and non-audit services provided by the independent accountants. The independent accountants and the internal auditor have full access to the Audit Committee and meet with it, both with and without management present, to discuss the scope and results of their audits including internal controls, audit and financial matters.

/s/ Mark A. Ernst
Mark A. Ernst
President and Chief Executive Officer

/s/ Frank J. Cotroneo
Frank J. Cotroneo
Senior Vice President and Chief Financial Officer

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders of
H&R Block, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of earnings, of cash flows and of stockholders' equity appearing on pages 25-28 and 52-78 present fairly, in all material respects, the financial position of H&R Block, Inc. and its subsidiaries (the "Company") at April 30, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended April 30, 2002 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP

Kansas City, Missouri
June 11, 2002

COMMON STOCK DATA

	Stock Price High	Stock Price Low	Cash Dividend Paid per Share
2001 FISCAL YEAR:			
Quarter ended 7/31/00	$ 21.28	$ 13.47	$ .14
Quarter ended 10/31/00	18.69	15.66	.15
Quarter ended 1/31/01	22.03	16.41	.15
Quarter ended 4/30/01	27.50	20.90	.15
2002 FISCAL YEAR:			
Quarter ended 7/31/01	**$ 35.69**	**$ 26.50**	**$ .15**
Quarter ended 10/31/01	**41.10**	**32.78**	**.16**
Quarter ended 1/31/02	**46.26**	**34.48**	**.16**
Quarter ended 4/30/02	**50.78**	**39.23**	**.16**

Traded on the New York Stock Exchange; Ticker Symbol: HRB

SELECTED FINANCIAL DATA

Amounts in thousands, except per share amounts and number of shareholders

	April 30				
	2002	**2001**	**2000**	**1999**	**1998**
FOR THE YEAR:					
Total revenues*	**$ 3,317,736**	$ 2,981,337	$ 2,425,685	$ 1,619,577	$ 1,244,267
Net earnings from continuing operations	**$ 434,405**	$ 276,748	$ 251,895	$ 237,795	$ 183,788
Net earnings	**$ 434,405**	$ 281,162	$ 251,895	$ 215,366	$ 392,130
AT YEAR END:					
Total assets	**$ 4,230,791**	$ 4,113,705	$ 5,700,146	$ 1,903,923	$ 2,899,108
Long-term debt	**$ 868,387**	$ 870,974	$ 872,396	$ 249,725	$ 249,675
Stockholders' equity	**$ 1,369,420**	$ 1,173,741	$ 1,218,589	$ 1,061,987	$ 1,341,632
Shares outstanding	**181,126**	183,608	196,070	195,258	213,961
Number of shareholders	**31,094**	31,523	33,557	34,624	31,177
MEASUREMENTS:					
Per basic share of common stock:					
Net earnings from continuing operations	**$ 2.38**	$ 1.50	$ 1.28	$ 1.19	$ 0.88
Net earnings	**$ 2.38**	$ 1.53	$ 1.28	$ 1.08	$ 1.87
Per diluted share of common stock:					
Net earnings from continuing operations	**$ 2.31**	$ 1.49	$ 1.27	$ 1.18	$ 0.85
Net earnings	**$ 2.31**	$ 1.52	$ 1.27	$ 1.07	$ 1.82
Other per share data:					
Cash dividends declared	**$ 0.63**	$ 0.59	$ 0.54	$ 0.48	$ 0.40
Net book value	**$ 7.56**	$ 6.39	$ 6.22	$ 5.44	$ 6.27
Return on total revenues	**13.1%**	9.3%	10.4%	14.7%	14.8%
Return on stockholders' equity	**41.1%**	29.7%	25.1%	22.0%	38.1%

** Revenues for the years ended April 30, 2001, 2000, 1999 and 1998 have been restated to reflect the adoption of Emerging Issues Task Force Nos. 01-9 and 01-14.*

EXHIBIT 21

SUBSIDIARIES OF H&R BLOCK, INC.

The following is a list of the direct and indirect subsidiaries of H&R Block, Inc., a Missouri corporation. All active subsidiaries do business under their corporate names listed below or close derivatives thereof:

	Name	Jurisdiction in which organized
1)	Block Investment Corporation	Delaware (1)
2)	H&R Block Group, Inc.	Delaware (1)
3)	HRB Management, Inc.	Missouri (2)
4)	H&R Block Tax and Financial Services Limited	United Kingdom (3)
5)	Companion Insurance, Ltd.	Bermuda (3)
6)	H&R Block Services, Inc.	Missouri (2)
7)	H&R Block Tax Services, Inc.	Missouri (4)
8)	H&R Block of Dallas, Inc.	Texas (5)
9)	HRB Partners, Inc.	Delaware (6)
10)	HRB Texas Enterprises, Inc.	Missouri (5)
11)	H&R Block and Associates, L.P.	Delaware (7)
12)	H&R Block Texas Tax Company, LP	Delaware (8)
13)	H&R Block Texas Support Services, LP	Delaware (8)
14)	BWA Advertising, Inc.	Missouri (5)
15)	H&R Block (Guam), Inc.	Guam (5)
16)	H&R Block Enterprises (Guam), Inc.	Guam (9)
17)	H&R Block Canada, Inc.	Canada (5)
18)	H&R Block (Nova Scotia), Incorporated	Nova Scotia (10)
19)	Cashplan Systems, Inc.	British Columbia (10)
20)	H&R Block Enterprises, Inc.	Missouri (5)
21)	H&R Block Tax Company, LLC	Missouri (11)
22)	H&R Block Support Services, LLC	Missouri (11)
23)	H&R Block Tax Company	California (5)
24)	H&R Block Eastern Tax Services, Inc.	Missouri (4)
25)	H&R Block Eastern Enterprises, Inc.	Missouri (12)
26)	H&R Block Indiana Tax Company, LP	Delaware (13)
27)	H&R Block Indiana Support Services, LP	Delaware (14)
28)	H&R Block Eastern Tax Company, LLC	Missouri (15)
29)	H&R Block Eastern Support Services, LLC	Missouri (15)
30)	HRB Royalty, Inc.	Delaware (4)
31)	H&R Block Limited	New South Wales (16)
32)	Block Financial Corporation	Delaware (2)
33)	Option One Mortgage Corporation	California (17)
34)	Option One Mortgage Acceptance Corporation	Delaware (18)
35)	Option One Mortgage Securities Corp.	Delaware (18)
36)	Premier Trust Deed Services, Inc.	California (18)
37)	Premier Mortgage Services of Washington, Inc.	Washington (18)
38)	H&R Block Mortgage Corporation	Ontario (18)
39)	H&R Block Mortgage Corporation	Massachusetts (18)
40)	Option One Direct Insurance Agency, Inc.	California (18)
41)	Woodbridge Mortgage Acceptance Corporation	Delaware (18)
42)	Option One Loan Warehouse Corporation	Delaware (18)
43)	Companion Mortgage Corporation	Delaware (17)
44)	Franchise Partner, Inc.	Nevada (17)

	Name	Jurisdiction in which organized
45)	H&R Block Investments, Inc.	Delaware (17)
46)	H&R Block Insurance Services, Inc.	Delaware (17)
47)	NCS Mortgage Services, L.L.C	Georgia (19)
48)	National Consumer Services Corp. II, L.L.C	Georgia (19)
49)	OLDE Financial Corporation	Michigan (17)
50)	H&R Block Financial Advisors, Inc.	Michigan (20)
51)	OLDE Discount of Canada	Canada (21)
52)	C.U. Brokerage Services, Inc.	Michigan (20)
53)	OLDE Asset Management, Inc.	Michigan (20)
54)	OLDE Clearing Corporation	Delaware (20)
55)	Smart Travel, Inc.	Michigan (20)
56)	Realty Acquisitions, Inc.	Michigan (20)
57)	OLDE Property Corporation	Michigan (20)
58)	OLDE Realty Corporation	Michigan (20)
59)	420 South Garden, Inc.	Florida (22)
60)	44 East Central, Inc.	Florida (22)
61)	4240 Hunt Road, Inc.	Ohio (22)
62)	3340 Gallows Road, Inc.	Michigan (22)
63)	450 Silver Spur, Inc.	Michigan (22)
64)	4230 West Green Oaks, Inc.	Michigan (22)
65)	3414 Shawnee Mission, Inc.	Michigan (22)
66)	OLDE Equipment Corporation	Michigan (20)
67)	H&R Block Financial Corporation	Michigan (20)
68)	American Brokerage Services, Inc.	Vermont (20)
69)	Financial Marketing Services, Inc.	Michigan (17)
70)	2430472 Nova Scotia Co.	Nova Scotia (23)
71)	Sumner Canadian Direct Holdings Company	Canada (23)
72)	HRB Business Services, Inc.	Delaware (2)
73)	RSM McGladrey, Inc.	Delaware (24)
74)	Toback, Inc.	Arizona (25)
75)	McGladrey Contract Business Services, L.L.C	Minnesota (26)
76)	Birchtree Financial Services, Inc.	Oklahoma (25)
77)	Birchtree Insurance Agency, Inc.	Missouri (28)
78)	FERS Business Services, Inc.	Delaware (25)
79)	Pension Resources, Inc.	Illinois (29)
80)	Freed Maxick ABL Services, Inc.	Delaware (25)
81)	FM Business Services, Inc.	Delaware (25)
82)	O’Rourke, Sacher & Moulton, Inc.	California (25)
83)	O’Rourke Consulting, LLC	California (26)
84)	O’Rourke Career Connections, LLC	California (27)
85)	Practice Development Institute, Inc.	Delaware (24)
86)	FERS Personal Financial Services, Inc.	Delaware (24)
87)	WS Business Services, Inc.	Delaware (24)
88)	Rex Investments, Inc.	Texas (30)
89)	WSB-NEV, L.L.C	Nevada (31)
90)	W-1 Holdings, L.L.C	Texas (31)
91)	Wallace Sanders Business Consulting, L.P.	Texas (32)
92)	C.W. Amos Business Services, Inc.	Delaware (24)
93)	C.W. Amos Investment Advisors, L.L.C	Maryland (33)
94)	RP Business Services, Inc.	Delaware (24)
95)	RSM Equico, Inc.	Delaware (24)
96)	RSM Equico Capital Markets, LLC	Delaware (34)
97)	Equico, Inc.	California (35)

	Name	Jurisdiction in which organized
98)	Equico Limited	United Kingdom (35)
99)	RSM Equico Canada, Inc.	Canada (35)
100)	MyBenefitSource, Inc.	Georgia (36)
101)	HRB Retail Services, Inc.	Delaware (2)

Notes to Subsidiaries of H&R Block, Inc.:

(1) Wholly owned subsidiary of H&R Block, Inc.
(2) Wholly owned subsidiary of H&R Block Group, Inc.
(3) Wholly owned subsidiary of HRB Management, Inc.
(4) Wholly owned subsidiary of H&R Block Services, Inc.
(5) Wholly owned subsidiary of H&R Block Tax Services, Inc.
(6) Wholly owned subsidiary of H&R Block of Dallas, Inc.
(7) Limited partnership in which HRB Texas Enterprises, Inc. is a 1% general partner and HRB Partners, Inc. is a 99% limited partner
(8) Limited partnership in which HRB Texas Enterprises, Inc. is a 1% general partner and H&R Block and Associates, L.P. is a 99% limited partner
(9) Wholly owned subsidiary of H&R Block (Guam), Inc.
(10) Wholly owned subsidiary of H&R Block Canada, Inc.
(11) Limited liability company in which H&R Block Tax Services, Inc. has a 100% membership interest
(12) Wholly owned subsidiary of H&R Block Eastern Tax Services, Inc.
(13) Limited partnership in which H&R Block Eastern Enterprises, Inc. is a 1% general partner and H&R Block Eastern Tax Company, LLC is a 99% limited partner.
(14) Limited partnership in which H&R Block Eastern Enterprises, Inc. is a 1% general partner and H&R Block Eastern Support Services, LLC is a 99% limited partner.
(15) Limited liability company in which H&R Block Eastern Tax Services, Inc. has a 100% membership interest
(16) Wholly owned subsidiary of HRB Royalty, Inc.
(17) Wholly owned subsidiary of Block Financial Corporation
(18) Wholly owned subsidiary of Option One Mortgage Corporation
(19) Limited liability company in which Block Financial Corporation has a 96.25% membership interest and Companion Mortgage Corporation has a 3.75% membership interest
(20) Wholly owned subsidiary of OLDE Financial Corporation
(21) Wholly owned subsidiary of H&R Block Financial Advisors, Inc.
(22) Wholly owned subsidiary of OLDE Realty Corporation
(23) Wholly owned subsidiary of Financial Marketing Services, Inc.
(24) Wholly owned subsidiary of HRB Business Services, Inc.
(25) Wholly owned subsidiary of RSM McGladrey, Inc.
(26) Limited liability company in which RSM McGladrey, Inc. has a 100% membership interest
(27) Limited liability company in which RSM McGladrey, Inc. owns a 50% membership interest and the California Credit Union League owns a 50% membership interest
(28) Wholly owned subsidiary of Birchtree Financial Services, Inc.
(29) Wholly owned subsidiary of FERS Business Services, Inc.
(30) Wholly owned subsidiary of WS Business Services, Inc.
(31) Limited liability company in which WS Business Services, Inc. has a 100% membership interest
(32) Limited partnership in which W-1 Holdings, L.L.C. has a 1% general partnership interest and WSB-NEV, L.L.C. has a 99% limited partnership interest
(33) Limited liability company in which C.W. Amos Business Services, Inc. has a 100% membership interest
(34) Limited liability company in which RSM Equico, Inc. has 100% membership interest.
(35) Wholly owned subsidiary of RSM Equico, Inc.
(36) Company in which HRB Business Services, Inc. owns approximately 44% of the issued and outstanding common stock and 100% of the outstanding preferred stock.

EXHIBIT 23

Consent of Independent Accountants

We hereby consent to the incorporation by reference in the Registration Statement on Form S-3 (No. 333-33655) of Block Financial Corporation and in the Registration Statements on Form S-3 (No. 333-33655-01) and Form S-8 (Nos. 33-185, 33-64147, 333-42143, 333-42736, 333-42740, 333-56400, 333-70400, 333-70402) of H&R Block, Inc. of our report dated June 11, 2002 relating to the financial statements of H&R Block, Inc., which appears in the 2002 Annual Report to Shareholders, which is incorporated by reference in this Annual Report on Form 10-K. We also consent to the incorporation by reference of our report dated June 11, 2002 relating to the financial statement schedule, which appears in this Annual Report on Form 10-K.

PricewaterhouseCoopers LLP
Kansas City, Missouri
July 29, 2002