

H&R Block Reports Second Quarter Results, Raises Fiscal 2002 Earnings Guidance To \$2.15 - \$2.25 Per Share

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Strong Mortgage Performance Drives 44 Percent Second Quarter Improvement

H&R Block Inc. (NYSE: HRB) today reported that its financial results improved 43.6 percent for the quarter ended Oct. 31, 2001, compared to the same period last year, resulting in a 15-cent per basic and diluted share loss. The company historically reports the majority of its profit during its fiscal fourth quarter. Today's reported net loss of \$28 million for the second quarter compares with a net loss of \$49.7 million, or 27 cents per basic and diluted share, last year. Revenues for the second quarter increased 12.2 percent to \$378.7 million, compared with \$337.5 million for the year-ago quarter.

"Once again, our mortgage operations delivered an outstanding quarter," said Mark A. Ernst, president and chief executive officer. "Option One and H&R Block Mortgage combined saw more than a 76 percent increase in loan originations from the previous year's quarter. Our retail channel, H&R Block Mortgage, continues to capitalize on the success of selling to our tax client base and at significantly lower acquisition costs."

Also during the second quarter, the company repurchased 7.7 million shares of its common stock for \$284.3 million. In the current fiscal year, H&R Block has purchased a total of 9.7 million shares at a cost of \$351.8 million, or an average price of \$36.32.

"Our stock repurchase program is the leading component of our capital allocation plan," Ernst said. "We remain focused on allocating our capital in ways that create sustained shareholder value."

Fiscal 2002 second quarter results reflect the company's previously announced early adoption of Statement of Financial Accounting Standards No. 141 and 142 (SFAS 141 and 142) related to business combinations, goodwill and other intangible assets, which resulted in the elimination of goodwill and certain other intangible asset amortization as of May 1, 2001. The adoption of SFAS 141 and 142 represents \$11.7 million, or 6 cents per share, of the improvement over the prior year second quarter.

Cash earnings improved 35.2 percent over the prior year's quarter with a loss of \$18.5 million, or 10 cents per basic and diluted share, compared to a loss of \$28.6 million, or 16 cents per basic and diluted share last year. The company defines cash earnings as net income or losses from operations excluding the after-tax effect of amortization expense of acquired intangible assets.

In the quarter, the company's performance as measured by earnings before interest (including interest expense on acquisition debt, investment income and interest allocated to operating business units), taxes, depreciation and amortization (EBITDA), improved from a negative \$14.1 million last year to a positive \$5.9 million this year.

Tax Operations

H&R Block's U.S. tax operations reported revenues of \$28 million, an increase of \$1.6 million, or 6.1 percent, compared with \$26.4 million in the same quarter a year ago. Higher off-season tax preparation volumes and average fees drove the increase.

The pretax loss for the segment was \$104.2 million, compared with a pretax loss of \$85.7 million last year. The increased loss resulted primarily from: payroll taxes of \$7.2 million associated with seasonal stock option exercises; increased technology development and marketing costs incurred earlier this year than in the previous year; somewhat higher rents; and increased field support wages related to the company's national tax training program.

"In anticipation of what we believe will be a good tax season, we have put key capabilities into place earlier in the year. This resulted in increased second-quarter spending, particularly related to some technology initiatives supporting our U.S. field operations," Ernst said. "However, the early preparation should result in reduced levels of spending during the third and fourth quarters and success in executing the upcoming tax season."

Amortization expense in the segment decreased by \$2.9 million related to the adoption of SFAS 141 and 142. EBITDA declined by \$21.3 million to a negative \$92.3 million, or 30 percent over the prior year.

The pretax loss in International tax operations increased to \$991,000 compared to \$851,000 last year due primarily to an unfavorable Australian exchange rate. The company also experienced somewhat weaker than expected tax season results in Australia, offsetting an improved performance in Canada. EBITDA was a negative \$229,000 compared with \$508,000 last year.

Mortgage Operations

Mortgage operations, which primarily include Option One Mortgage Corporation and H&R Block Mortgage Corporation, reported that pretax earnings rose to \$93.2 million, compared with \$20.4 million last year. The adoption of SFAS 141 and 142 accounts for \$3.4 million of the improvement over the prior year. Revenues rose 113.5 percent to \$180.8 million.

A 76.3 percent increase in loan originations, larger servicing volume, improved pricing on loans generated, and contributions from retail mortgage combined for an outstanding quarter. In addition, higher volumes and cost controls helped drive a 14 percent decline in the cost of origination, contributing to the 193 basis point year-over-year improvement in operating profit margin. Operating profit margin for the quarter was 3.52 percent compared with 1.59 percent in last year's second quarter. Operating profit margin is defined as pretax earnings before goodwill amortization divided by mortgage fundings. EBITDA increased \$70.7 million to \$96.9 million, or 270 percent over the prior year.

"The performance of our mortgage business has been simply outstanding," Ernst said. "In its second consecutive profitable quarter, H&R Block Mortgage contributed 11 percent of the segment's \$72.8 million year-over-year improvement. Ten percent of all loans originated, and 62 percent of all retail loans, came from H&R Block tax clients."

Option One and H&R Block Mortgage originated \$2.6 billion in loans during the second quarter. Option One's ending servicing portfolio was \$20.9 billion, compared with \$14.8 billion last year.

Based on current trends and market conditions, the company expects continued strength in its mortgage segment through the remainder of its fiscal year.

Investment Services

H&R Block's investment services operations, which consists primarily of H&R Block Financial Advisors Inc., continues to be adversely impacted by poor market conditions, which were exacerbated by the Sept. 11 tragedy. Second quarter revenues totaled \$64.8 million compared with \$131.6 million last year. The segment reported a pretax loss of \$9.1 million compared with pretax earnings of \$11.8 million last year. The adoption of SFAS 141 and 142 positively impacted the change over the prior year by \$4.1 million. Investment services reported a decline in EBITDA to \$3.6 million from \$28.4 million in the prior year.

"The tragic events of Sept. 11 have created significant uncertainty for the retail investor," Ernst said. "Our business strategy of offering financial advice to our clients is more relevant than ever before."

Business Services

Business services, which primarily includes RSM McGladrey, reported that acquisitions drove a 17.3 percent increase in revenues to \$91.8 million, compared with \$78.3 million last year. Pretax earnings of \$2.6 million compared with a pretax loss of \$1 million last year. Growth in consulting services slowed in late September, but rebounded strongly in October. Off-season losses from newly acquired firms and normal operating cost increases reduced results for the quarter. Business Services reports the bulk of its earnings in the fiscal fourth quarter of the year.

The adoption of SFAS 141 and 142 positively impacted results by \$4.6 million compared to the second quarter last year. Business services reported a decline in EBITDA to \$7.3 million, compared with \$8.7 million last year.

Other

"Based on the continued strength of our mortgage operations and expectations for a solid tax filing season, we expect that earnings per share for fiscal 2002 will be in the range of \$2.15 to \$2.25," Ernst said. "We expect overall revenue growth to be within our

target range of 10 to 15 percent per year."

Interest expense on acquisition debt decreased \$5.1 million primarily due to lower interest rates.

Effective May 1, 2001, the company adopted a new methodology for allocation of corporate services and support costs to business units. This change was made in an effort to more accurately reflect each business line's performance. Prior year results have been restated to reflect the new methodology.

The Board of Directors of H&R Block declared a quarterly dividend of 16 cents per share payable Jan. 2, 2002, to shareholders of record Dec. 12, 2001.

A conference call with H&R Block management discussing second quarter results will be conducted live today at 5 p.m. EST (4 p.m. Central) and may be accessed at www.hrblock.com.

New Board Member Named

In other actions, Tom Decker Seip was elected to H&R Block's Board of Directors, filling the vacancy created by former Board member Robert E. Davis, who retired Sept. 12. Seip this year was named president and chief executive officer and director of Westaff Inc., a provider of temporary staffing and employment services. Prior to that, he worked more than 15 years at Charles Schwab Corporation in a variety of executive positions, including chief executive officer of Charles Schwab Investment Management Inc., the company's mutual fund subsidiary. Davis, a partner of Axess Corporation in Newark, Del., had been a member of H&R Block's Board of Directors for 20 years.

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

About H&R Block:

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

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

	Three months ended October 31,		
	2001	2000	1999
Revenues	\$378,729	\$337,474	\$209,946
Loss before income tax benefit	(47,077)	(86,356)	(72,157)
Net loss	\$(28,011)	\$(49,655)	\$(44,737)

Basic net earnings (loss) per share:

Net loss	\$ (0.15)	\$ (0.27)	\$ (0.23)
Basic shares outstanding	182,288	182,806	195,628

Six months ended October 31,
2001 2000 1999

Revenues	\$702,854	\$641,584	\$331,506
Loss before income tax benefit	(98,815)	(176,349)	(131,954)
Net loss	\$ (58,795)	\$ (101,401)	\$ (81,811)

Basic net earnings (loss) per share:

Net loss	\$ (0.32)	\$ (0.55)	\$ (0.42)
Basic shares outstanding	183,073	184,664	195,528

Notes to Consolidated Statements of Operations

On June 20, 2001, the Company's Board of Directors declared a two-for-one stock split of its Common Stock in the form of a 100% stock distribution effective August 1, 2001, to shareholders of record as of the close of business on July 10, 2001.

Basic net earnings (loss) per share is based on the weighted average number of shares outstanding during each period.

All periods presented have been adjusted to reflect the stock split.

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

In July 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 141, "Business Combinations," and No. 142, "Goodwill and Other Intangible Assets" (SFAS 141 & 142). SFAS 141 addresses financial accounting and reporting for business combinations and replaces APB Opinion No. 16, "Business Combinations" (APB 16). SFAS 141 no longer allows the pooling of interests method of accounting for acquisitions, provides new recognition criteria for intangible assets and carries forward without reconsideration the guidance in APB 16 related to the application of the purchase method of accounting. SFAS 142 addresses financial accounting and reporting for acquired goodwill and other intangible assets and replaces APB Opinion No. 17, "Intangible Assets" (APB 17). SFAS 142 addresses how intangible assets should be accounted for upon their acquisition and after they have been initially recognized in the financial statements. As of May 1, 2001, the Company elected early adoption of both SFAS 141 & 142.

The implementation of these standards has the effect of reducing amortization expense of acquired intangible assets.

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

On August 2, 1999, the Company, through a subsidiary, RSM McGladrey, Inc.,

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

During the six months ended October 31, 2001, 2000 and 1999, the Company issued shares of its common stock pursuant to provisions for exercise of the Company's stock option plans as follows: 2001 - 7,288,701 shares; 2000 - 119,338 shares; 1999 - 1,234,056 shares. During the same periods, the Company reacquired shares of its common stock as follows: 2001 - 9,688,400 shares at an aggregate cost of \$351,845,000; 2000 - 13,628,400 shares at an aggregate cost of \$222,816,000; 1999 - 1,443,600 shares at an aggregate cost of \$32,366,000.

H&R BLOCK, INC.
 SELECTED OPERATIONAL INFORMATION
 Unaudited, amounts in thousands

	Three months ended October 31,			
	Revenues		Earnings (loss)	
	2001	2000	2001	2000
U.S. tax operations	\$28,015	\$26,403	\$(104,225)	\$(85,724)
International tax operations	13,709	14,899	(991)	(851)
Mortgage operations	180,821	84,690	93,191	20,433
Investment services	64,827	131,573	(9,135)	11,779
Business services	91,779	78,267	2,554	(1,030)
Unallocated corporate	(422)	1,642	(9,818)	(7,359)
Interest expense on acquisition debt	-	-	(19,360)	(24,484)
	\$378,729	\$337,474	(47,784)	(87,236)
Investment income, net			1,094	2,536
Intercompany interest*			(387)	(1,656)
			(47,077)	(86,356)
Income tax benefit			(19,066)	(36,701)
Net loss			\$(28,011)	\$(49,655)

	Six months ended October 31,			
	Revenues		Earnings (loss)	
	2001	2000	2001	2000
U.S. tax operations	\$47,994	\$37,753	\$(185,393)	\$(171,286)
International tax operations	18,541	19,798	(6,644)	(7,206)
Mortgage operations	329,146	165,290	159,970	41,963
Investment services	133,752	262,240	(15,233)	23,462
Business services	171,761	154,364	383	(4,264)
Unallocated corporate	1,660	2,139	(15,257)	(11,900)
Interest expense on acquisition debt	-	-	(40,758)	(51,772)
	\$702,854	\$641,584	(102,932)	(181,003)
Investment income, net			2,212	5,255
Intercompany interest*			1,905	(601)
			(98,815)	(176,349)
Income tax benefit			(40,020)	(74,948)
Net loss			\$(58,795)	\$(101,401)

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

Consolidated Balance Sheets

Unaudited, amounts in thousands, except share data

	October 31,	
	2001	2000
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$599,002	\$247,679
Marketable securities -- available-for-sale	1,000	16,022
Marketable securities -- trading	36,591	39,060
Receivables from customers, brokers, dealers and clearing organizations, less allowance for doubtful accounts of \$1,724 and \$840	925,219	2,640,656
Receivables, less allowance for doubtful accounts of \$48,875 and \$46,075	323,251	354,207
Prepaid expenses and other current assets	415,414	153,733
TOTAL CURRENT ASSETS	2,300,477	3,451,357
INVESTMENTS AND OTHER ASSETS:		
Investments in available-for- sale marketable securities	300,727	304,952
Excess of cost over fair value of net tangible assets acquired, net of amortization	1,073,734	1,070,051
Other	248,686	210,245
	1,623,147	1,585,248
PROPERTY AND EQUIPMENT, at cost less accumulated depreciation and amortization	276,007	285,414
	\$4,199,631	\$5,322,019
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Notes payable	\$881,697	\$914,692
Accounts payable to customers, brokers and dealers	857,349	2,291,963
Accounts payable, accrued expenses and deposits	299,522	173,763
Accrued salaries, wages and payroll taxes	109,977	76,261
Accrued taxes on earnings	144,561	50,631
Current portion of long-term debt	50,750	43,308
TOTAL CURRENT LIABILITIES	2,343,856	3,550,618
LONG-TERM DEBT	849,283	840,073
OTHER NONCURRENT LIABILITIES	92,740	96,800
STOCKHOLDERS' EQUITY:		
Common stock, no par, stated value \$.01 per share	2,179	2,179
Additional paid-in capital	458,019	420,003
Retained earnings	1,312,043	1,087,040
	1,772,241	1,509,222
Less cost of 36,680,380 and 35,384,428 shares of common stock in treasury	858,489	674,694
	913,752	834,528

\$4,199,631 \$5,322,019

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

	Six months ended October 31, 2001	2000
Cash flows from operating activities:		
Net loss	\$(58,795)	\$(101,401)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	68,928	96,142
Provision for bad debt	17,099	14,254
Accretion of acquisition liabilities	6,187	5,604
Tax benefit from stock option exercises	41,805	-
Changes in:		
Receivables from customers, brokers, dealers and clearing organizations	385,413	216,723
Receivables	23,180	(7,592)
Marketable securities - trading	9,567	6,343
Prepaid expenses and other current assets	(154,472)	(8,792)
Accounts payable to customers, brokers and dealers	(200,651)	(278,237)
Accounts payable, accrued expenses and deposits	(61,688)	(48,599)
Accrued salaries, wages and payroll taxes	(111,853)	(97,072)
Accrued taxes on earnings	(151,038)	(175,786)
Other, net	(12,762)	(1,169)
Net cash used in operating activities	(199,080)	(379,582)
Cash flows from investing activities:		
Purchases of available-for-sale securities	(1,045)	(2,432)
Maturities of available-for-sale securities	27,498	10,090
Purchases of property and equipment, net	(33,724)	(23,821)
Payments made for business acquisitions, net of cash acquired	(23,468)	(10,659)
Other, net	(13,028)	(18,114)
Net cash used in investing activities	(43,767)	(44,936)
Cash flows from financing activities:		
Repayments of notes payable	(3,916,323)	(8,197,821)
Proceeds from issuance of notes payable	4,798,020	8,828,716
Payments on acquisition debt	(47,179)	(63,993)
Dividends paid	(57,294)	(53,764)
Payments to acquire treasury shares	(351,845)	(222,816)
Proceeds from stock options exercised	144,263	1,708
Other, net	394	266
Net cash provided by financing activities	570,036	292,296
Net increase (decrease) in cash and cash equivalents		
	327,189	(132,222)
Cash and cash equivalents at beginning of the period		
	271,813	379,901
Cash and cash equivalents at end of the period		
	\$599,002	\$247,679
Supplementary cash flow data:		
Income taxes paid	\$99,328	\$88,836

Interest paid	52,107	118,715
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H&R Block, Inc.
Consolidated Statements of Operations
Unaudited, amounts in thousands, except per share data

	Three Months Ended October 31,	
	2001	2000
Revenues:		
Service revenues	\$234,990	\$265,982
Product sales	131,837	60,391
Royalties	2,886	3,877
Other income	9,016	7,224
	378,729	337,474
Operating expenses:		
Employee compensation and benefits	200,687	172,900
Occupancy and equipment	61,749	56,234
Interest	29,785	63,973
Depreciation and amortization	34,329	48,685
Marketing and advertising	17,091	14,728
Supplies, freight and postage	9,470	10,005
Bad debt	6,263	8,733
Other	67,516	51,123
	426,890	426,381
Operating loss	(48,161)	(88,907)
Other income:		
Investment income, net	1,093	2,536
Other, net	(9)	15
	1,084	2,551
Loss before income tax benefit	(47,077)	(86,356)
Income tax benefit	(19,066)	(36,701)
Net loss	\$(28,011)	\$(49,655)
Basic net loss per share	\$(0.15)	\$(0.27)
Basic shares outstanding	182,288	182,806

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

	Six months ended October 31,	
	2001	2000
Revenues:		
Service revenues	\$443,174	\$512,714
Product sales	236,223	111,591
Royalties	4,443	5,193
Other income	19,014	12,086
	702,854	641,584
Operating expenses:		
Employee compensation and benefits	376,716	319,440
Occupancy and equipment	121,428	116,458
Interest	59,590	127,171
Depreciation and amortization	68,928	96,142

Marketing and advertising	24,083	24,502
Supplies, freight and postage	16,043	17,584
Bad debt	17,099	14,254
Other	120,147	107,634
	804,034	823,185
Operating loss	(101,180)	(181,601)
Other income:		
Investment income, net	2,211	5,255
Other, net	154	(3)
	2,365	5,252
Loss before income tax benefit	(98,815)	(176,349)
Income tax benefit	(40,020)	(74,948)
Net loss	\$(58,795)	\$(101,401)
Basic net loss per share	\$(0.32)	\$(0.55)
Basic shares outstanding	183,073	184,664

H&R Block, Inc.
Financial Services Operating Data

H&R Block Financial Advisors, Inc.

	For the three months ended			
	10/26/2001	10/27/2000	% change	07/27/2001
Customer trades (000's)	377	626	-39.8%	389
Customer daily average trades	6,285	9,788	-35.8%	6,180
Average commission per trade	\$63.17	\$70.52	-10.4%	\$62.29
Number of active accounts (000's)	609	623	-2.3%	621
Average trades per active account per quarter	0.62	1.01	-38.4%	0.63
Average trades per active account per year (annualized)	2.48	4.02	-38.4%	2.51
Ending balance of assets under administration (\$ bn's)	\$27.1	\$39.0	-30.6%	\$ 30.1
Average assets per active account	\$44,448	\$62,553	-28.9%	\$48,498
Ending debit balances (\$ bn's)	\$0.9	\$2.6	-66.6%	\$ 1.2
Ending credit balances (\$ bn's)	\$0.8	\$0.8	-6.9%	\$ 0.8

Option One Mortgage Corporation

	For the three months ended			
	10/31/2001	10/31/2000	% Change	07/31/2001
Number of loans originated				
Wholesale	18,172	11,900	52.7%	17,999
Retail	3,352	2,155	55.5%	3,695
Total	21,524	14,055	53.1%	21,694
Volume of loans originated (000's)				
Wholesale	\$2,206,041	\$1,252,710	76.1%	\$2,120,528
Retail	438,158	247,424	77.1%	503,418
Total	\$2,644,199	\$1,500,134	76.3%	\$2,623,946
Loan sales	\$2,618,065	\$2,283,814	14.6%	\$2,618,446

Servicing portfolio				
Number of loans serviced				
(000's)	184.8	162.2	14.0%	180.5
Servicing portfolio (\$ bn's)	\$20.9	\$14.8	41.0%	\$19.2

SOURCE H&R Block Inc.

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