

H&R Block Announces Intent to Expense Stock Options

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Change Supports Commitment to Transparency in Financial Reporting

H&R Block Inc. (NYSE: HRB) said today it expects to begin expensing the cost of stock options in its next fiscal year, assuming that the Financial Accounting Standards Board (FASB) clarifies its rules on this issue.

"Our intent to expense options is part of our commitment to transparency in financial reporting. We want investors to more clearly understand the costs of this part of our compensation plan," President and Chief Executive Officer Mark A. Ernst told shareholders at the company's annual meeting.

"Stock option plans have been an important way to attract, retain and motivate talented associates. In moving to expense the cost of options, we anticipate an opportunity to design compensation plans that will align associate incentives even more closely with shareholder interests," Ernst said.

The financial effect of expensing stock options in fiscal 2004 cannot yet be determined because H&R Block is still evaluating accounting methods for stock option costs and waiting for further clarification from the FASB, which will define standards to ensure consistency in reporting stock option expenses by publicly traded companies. Without clarification from the FASB in a timely manner, the company may choose to delay implementation of this change.

Historically the company has applied Accounting Principles Board Opinion No. 25 in its accounting for stock compensation plans. This standard does not recognize stock options as a compensation cost in the company's statement of earnings.

In fiscal 2002, the cost of H&R Block's stock options would have been 18 cents per basic and diluted share, as noted in the company's annual report. This pro forma cost was computed according to Statement of Financial Accounting Standards (SFAS) 123 for determining the compensation cost of stock options. The company reported basic earnings per share of \$2.38. If the company had expensed stock options in fiscal 2002 under one of the proposed FASB methods, basic earnings per share would have been \$2.19. Expensing stock options would have no effect on the company's cash earnings or its cash flow.

Over the past nine quarters the company purchased \$722.9 million in shares and reduced basic shares outstanding from 196.1 million at April 30, 2000 to 181 million at July 31, 2002.

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 uncertainty that the FASB will adopt rules that will clarify its standards on stock option accounting, the uncertainty of laws, legislation and regulations, 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. (<http://www.hrblock.com>) is a diversified company with subsidiaries that deliver tax services and financial advice, investment and mortgage products and services, and business accounting and consulting services. As the world's largest tax services company, H&R Block served nearly 23 million clients during fiscal year 2002. Clients were served at the approximately 10,400 H&R Block retail offices worldwide and through the company's award-winning software, TaxCut, and its online tax services. H&R Block is the only major tax and financial services company that focuses primarily on helping middle-income taxpayers achieve their financial goals. Investment services and securities products are offered through H&R Block Financial Advisors Inc., member NYSE, SIPC. H&R Block Inc. is not a registered broker-dealer. H&R Block Mortgage Corp. offers retail mortgage products. Option One Mortgage Corp. offers wholesale mortgage products and a wide range of mortgage

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