

H&R Block Reports 5 Cents Per Share First Quarter Loss

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Company Increases Fiscal 2003 Earnings Guidance to Range of \$2.80 to \$3 Per Share

KANSAS CITY, Mo., Aug 27, 2002 /PRNewswire-FirstCall via COMTEX/ -- H&R Block Inc. (NYSE: HRB) reported a first quarter loss of \$9.5 million, or 5 cents per basic share, compared with a loss of \$30.8 million, or 17 cents per share last year. The company typically reports a loss in its first quarter due to the seasonal nature of its tax service businesses.

The company's revenues increased 31.1 percent to \$431.4 million for the quarter, up from last year's \$329 million. The loss for the quarter includes an \$18 million non-cash impairment charge in the company's investment services segment, reflecting the significant decline in market values at July 31 for comparable businesses. Excluding this charge, the company earned \$1.3 million, or 1 cent per share.

"H&R Block enjoyed solid operating performance for the quarter, led by our mortgage operation's outstanding results," said Mark A. Ernst, president and chief executive officer.

Cash earnings improved \$40 million over the prior year's quarter to \$18.6 million, or 10 cents per basic and diluted share, compared with a net loss of \$21.4 million, or 12 cents per basic share last year. The company defines cash earnings as net earnings from operations, excluding the after-tax effect of amortization expense of acquired intangible assets and the impairment charge.

"Based on the continued strength of our mortgage operations, expectations for a solid tax filing season and cost controls across our businesses, we expect that earnings per share for fiscal 2003 will be in the range of \$2.80 to \$3," Ernst said. "We expect overall annual revenue growth to be within our target range of 10 to 15 percent."

The company had previously estimated full year earnings per share to be in the range of \$2.60 to \$2.75. The expected results represent growth of 21 to 30 percent from fiscal 2002, when H&R Block earned \$2.31 per diluted share.

U.S. Tax Operations

H&R Block's U.S. tax operations reported revenues of \$23.3 million, an increase of \$3.8 million, or 19.5 percent, compared with \$19.5 million in the same quarter a year ago. Revenues from the company's Peace of Mind service and higher average fees from off-season tax preparation were primarily responsible for the increase.

The pretax loss for the segment increased \$12.8 million to \$94 million, an increase of 15.8 percent, compared with a pretax loss of \$81.2 million last year. Most of the increase was driven by increased staff and occupancy costs in the field organization. The higher spending levels in the quarter, relative to first quarter last year, were consistent with the company's business plan and represent preparations for the upcoming tax season.

"Preparations for tax season are progressing well," Ernst said. "Spending is consistent with our full year margin improvement targets."

International Tax Operations

The pretax loss in international tax operations increased 14.1 percent or \$798,000, to \$6.5 million. The increased loss was the result of normal increases in operating expenses in Canadian operations. Revenues in international tax operations declined 10.7 percent, from \$4.8 million in the prior year to \$4.3 million.

Mortgage Operations

Mortgage operations, which include Option One Mortgage Corp. and H&R Block Mortgage Corp., reported pretax earnings of \$147.1 million, up \$80.3 million or 120.3 percent, compared with \$66.8 million last year.

Revenues in mortgage operations increased 68.8 percent to \$250.3 million, up \$102 million from last year's \$148.3 million. Higher loan origination and servicing volume, improved pricing on loans generated, and contributions from retail mortgage combined for an outstanding quarter.

Option One and H&R Block Mortgage originated \$3.4 billion in loans during the first quarter, an increase of 28.6 percent over the previous year's first quarter. Option One's end of quarter servicing portfolio was \$26.8 billion, compared with \$19.2 billion at the end of first quarter last year.

Increased productivity and the interest rate environment contributed to a 113 basis point year-over-year improvement in operating profit margin. Operating profit margin for the first quarter was 3.68 percent compared with 2.55 percent in last year's first quarter. Operating profit margin is defined as pretax earnings before amortization and accretion on residual write-ups divided by mortgage fundings.

"Low interest rates, a strong secondary market and outstanding execution of the business resulted in great quarterly results," said Ernst. "While we continue to expect some slowdown in this business in our third and fourth quarters, the market environment remains very positive."

In addition to its operating results during the first quarter, the company recorded a \$77.9 million pretax write-up of its interests in residuals through other comprehensive income. The write-up reflects the stronger than previously expected cash flows from the company's retained residual interests from past securitizations and the continued low interest rate environment.

Investment Services

As expected, the weak market environment negatively affected H&R Block's investment services operations, which consists of H&R Block Financial Advisors Inc. The segment reported a pretax loss of \$32.8 million, which includes an \$18 million impairment charge. It reported a loss of \$27.3 million in the prior quarter and a loss of \$6.1 million in last year's first quarter.

First quarter revenues were \$58.7 million, compared with \$55.8 million in the previous quarter and \$68.9 in last year's first quarter.

Because of unsettled market conditions in the industry, the company elected to test the fair value of the goodwill in its investment services segment as of July 31, 2002, in accordance with Statement of Financial Accounting Standards (SFAS) no. 142. The first step of the test, performed by an independent valuation firm, indicated that the market value of the investment services segment, depressed by lower levels of activity by retail investors in this summer's bear market, was lower than its carrying value by \$18 million.

The second step of the analysis is now being performed to calculate the fair value of goodwill for this segment and to determine the actual amount of the impairment, if any. The second step is expected to be completed during the company's second quarter and any adjustments to the \$18 million estimate will be recorded in the second quarter.

"Although we haven't yet completed the full analysis, the current charge is our best estimate of the impairment," Ernst said. "Our decision to test for and record this charge reflects our commitment to provide investors with the most current information."

"Our management team continues to make solid progress toward H&R Block Financial Advisors' objective to better serve our clients," Ernst said. "Despite the challenging market environment, I am encouraged by the progress we're making."

Business Services

Business services, which primarily includes RSM McGladrey, reported that revenues rose 11.7 percent over last year to \$95.3 million primarily as a result of the increase in revenues associated with the company's expansion into valuation, corporate finance and payroll processing. This was partially offset by declining revenues in consulting services for manufacturing clients, reflecting their cautious business climate.

The pretax loss was \$4.3 million compared with \$2.2 million last year. The increased operating loss was due to planned start-up losses related to corporate finance and payroll services, partially offset by increased earnings from tax and accounting services. The increase in tax and accounting earnings is largely attributable to operating efficiencies realized through improved productivity

and decreased operating costs.

Other

In the first quarter, the company purchased 786,000 of its shares of common stock for approximately \$36.6 million, or an average cost of \$46.57 per share.

As announced in June, H&R Block's Board of Directors declared a quarterly dividend of 18 cents per share payable Oct. 1, 2002, to shareholders of record Sept. 10, 2002. A conference call with H&R Block management discussing first quarter results will be conducted live today at 5 p.m. EDT and may be accessed at www.hrblock.com.

Except for historical information contained herein, the matters set forth in this press release are forward-looking statements based upon current information and expectations. Such statements speak only as of the date on which they are made, are not guarantees of future performance, and involve certain risks, uncertainties and assumptions that could cause actual results to differ materially from what is expressed, implied or forecast in such forward-looking statements. Such differences could be caused by a number of factors, including, but not limited to, the uncertainties that the company will achieve its revenue, earnings and earnings per share goals for fiscal year 2003 and that actual financial results for fiscal year 2003 will fall within the guidance provided by the company; the uncertainty of the actual amount of impairment, if any, of goodwill within the investment services segment; 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. (www.hrblock.com) is a diversified company with subsidiaries that deliver tax services and financial advice, investment and mortgage products and services, and business accounting and consulting services. As the world's largest tax services company, H&R Block served nearly 23 million clients during fiscal year 2002. Clients were served at the approximately 10,400 H&R Block retail offices worldwide and through the company's award-winning software, TaxCut(R), and its online tax services. Investment services and securities products are offered through H&R Block Financial Advisors Inc., member NYSE, SIPC. H&R Block Inc. is not a registered broker-dealer. H&R Block Mortgage Corp. offers retail mortgage products. Option One Mortgage Corp. offers wholesale mortgage products and a wide range of mortgage services. RSM McGladrey Inc. serves mid-sized businesses with accounting, tax and consulting services.

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

	Three months ended July 31,		
	2002	2001	2000
Revenues	\$431,366	\$328,981	\$311,009
Loss before income taxes	(15,906)	(51,738)	(89,993)
Net loss	\$(9,544)	\$(30,784)	\$(51,746)
Basic and diluted net loss per share:	\$(0.05)	\$(0.17)	\$(0.28)
Basic and diluted shares outstanding	181,209	183,859	186,522

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 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.

Results for the three months ended July 31, 2001 and 2000 have been adjusted to reflect the implementation of Emerging Issues Task Force Issue No. 01-9, "Accounting for Consideration Given by a Vendor to a Customer

(Including a Reseller of the Vendor's Products)." The effect of this change was to reduce revenues and expenses by \$521,000 and \$129,000 for the three months ended July 31, 2001 and 2000, respectively. There was no impact on net earnings.

Results for the three months ended July 31, 2001 and 2000 have been adjusted to reflect the implementation of Emerging Issues Task Force Issue No. 01-14, "Income Statement Characterization of Reimbursements Received for 'Out-of-Pocket' Expenses Incurred." The effect of this change was to increase revenues and expenses by \$5.4 million and \$7.0 million for the three months ended July 31, 2001 and 2000, respectively. There was no impact on net earnings.

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." SFAS 142 addresses how intangible assets should be accounted for upon their acquisition and after they have been initially recognized in the financial statements. The Company adopted both SFAS 141 & 142 on May 1, 2001. The implementation of these standards had the effect of reducing amortization expense of acquired intangible assets.

In accordance with SFAS 142, the Company performed step one of the goodwill impairment test as of July 31, 2002 for the Investment services segment. As this valuation indicated a potential impairment, step two of the impairment test will now be performed. Although step two has not yet been completed as of the press release date, management has recorded an estimated impairment charge of \$18.0 million, the excess of the carrying value over the estimated fair value yielded by step one. This impairment charge is included as a separate line item in the consolidated statements of operations for the three months ended July 31, 2002 and is included in the Investment services segment where applicable.

During the three months ended July 31, 2002, 2001 and 2000, the Company issued shares of its common stock pursuant to provisions for exercise of the Company's stock option plans as follows: 2002 - 556,500 shares; 2001 - 1,528,611 shares; 2000 - 36,300 shares. During the same periods, the Company reacquired shares of its common stock as follows: 2002 - 796,900 shares at an aggregate cost of \$37,108,000; 2001 - 2,037,400 shares at an aggregate cost of \$67,583,000; 2000 - 13,063,000 shares at an aggregate cost of \$213,107,000.

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

	Three months ended July 31,			
	Revenues		Earnings (loss)	
	2002	2001	2002	2001
U.S. tax operations	\$23,286	\$19,493	\$(94,030)	\$(81,168)
International tax operations	4,283	4,797	(6,451)	(5,653)
Mortgage operations	250,306	148,325	147,085	66,779
Investment services	58,663	68,925	(32,797)	(6,098)
Business services	95,314	85,359	(4,273)	(2,171)
Corporate operations	(486)	2,082	(10,829)	(5,439)
Interest expense on acquisition debt	-	-	(18,773)	(21,398)
	\$431,366	\$328,981	(20,068)	(55,148)
Investment income, net			1,084	1,118
Intercompany interest*			3,078	2,292
			(15,906)	(51,738)
Income tax benefit			(6,362)	(20,954)
Net loss			\$(9,544)	\$(30,784)

* 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 Company's credit facility.

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

	July 31,	
	2002	2001
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$377,992	\$235,754

Cash and cash equivalents - restricted	242,260	16,096
Marketable securities -- available-for-sale	-	1,500
Marketable securities -- trading	24,507	176,352
Receivables from customers, brokers, dealers and clearing organizations, less allowance for doubtful accounts of \$1,722 and \$1,735	680,364	1,262,193
Receivables, less allowance for doubtful accounts of \$64,024 and \$42,877	310,227	277,977
Prepaid expenses and other current assets	302,802	244,466
Total current assets	1,938,152	2,214,338

OTHER ASSETS:

Investments in available-for-sale marketable securities	17,878	16,269
Residual interests in securitizations	397,775	233,983
Intangible assets	369,320	391,806
Goodwill	708,046	651,527
Property and equipment, at cost less accumulated depreciation and amortization	277,865	278,601
Other	216,686	248,315
	\$3,925,722	\$4,034,839

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:

Notes payable	\$156,492	\$373,335
Accounts payable to customers, brokers and dealers	840,966	1,007,318
Accounts payable, accrued expenses and deposits	261,503	248,693
Accrued salaries, wages and payroll taxes	114,093	98,872
Accrued taxes on earnings	167,868	215,929
Current portion of long-term debt	60,793	52,428
Total current liabilities	1,601,715	1,996,575

LONG-TERM DEBT

868,702 870,549

OTHER NONCURRENT LIABILITIES

109,243 93,973

STOCKHOLDERS' EQUITY:

Common stock, no par, stated value \$.01 per share	2,179	2,179
Additional paid-in capital	471,493	416,622
Accumulated other comprehensive income (loss)	77,360	(43,654)
Retained earnings	1,729,154	1,390,578
Less cost of 36,986,522 and 34,791,128 shares of common stock in treasury	(934,124)	(691,983)
Total stockholders' equity	1,346,062	1,073,742
	\$3,925,722	\$4,034,839

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

	Three months ended July 31,	
	2002	2001
Cash flows from operating activities:		
Net loss	\$(9,544)	\$(30,784)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	35,573	34,599
Provision for bad debt	7,993	10,836
Accretion of acquisition liabilities	2,851	3,585
Accretion of residual interests in securitizations, net	(38,761)	(4,844)
Adjustments to fair value of residual interests in securitizations	20,430	344
Impairment of goodwill	18,000	-
Changes in:		
Cash and cash equivalents - restricted	(90,087)	68,101
Receivables from customers, brokers, dealers and clearing organizations	164,007	48,535
Receivables	50,166	(48,808)
Marketable securities - trading	3,800	3,635
Prepaid expenses and other current assets	92,648	16,476
Accounts payable to customers, brokers and dealers	(62,235)	(50,682)
Accounts payable, accrued expenses and deposits	(147,789)	(112,517)
Accrued salaries, wages and payroll taxes	(139,308)	(122,958)
Accrued taxes on earnings	(84,954)	(79,670)
Other, net	(4,105)	3,549
Net cash used in operating activities	(181,315)	(260,603)
Cash flows from investing activities:		
Purchases of available-for-sale securities	(7,146)	(607)
Maturities of available-for-sale securities	46,269	23,686
Purchases of property and equipment, net	(16,331)	(13,776)
Payments made for business acquisitions, net		

of cash acquired	(75)	(2,084)
Other, net	(2,437)	(1,825)
Net cash provided by investing activities	20,280	5,394
Cash flows from financing activities:		
Repayments of notes payable	(1,962,998)	(1,136,895)
Proceeds from issuance of notes payable	2,119,490	1,510,230
Payments on acquisition debt	(22)	(1,769)
Dividends paid	(29,004)	(27,660)
Payments to acquire treasury shares	(37,108)	(67,583)
Proceeds from issuance of common stock	13,214	26,915
Other, net	(690)	109
Net cash provided by financing activities	102,882	303,347
Net increase(decrease) in cash and cash equivalents	(58,153)	48,138
Cash and cash equivalents at beginning of the period	436,145	187,616
Cash and cash equivalents at end of the period	\$377,992	\$235,754
Supplementary cash flow data:		
Income taxes paid	\$82,386	\$68,776
Interest paid	13,179	19,844

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

	Three Months Ended July 31,	
	2002	2001
Revenues:		
Service revenues	\$190,569	\$167,971
Gain on sale of mortgage loans	145,008	96,234
Interest income	78,220	44,220
Product sales	15,412	10,757
Royalties	1,201	1,557
Other income	956	8,242
	431,366	328,981
Operating expenses:		
Employee compensation and benefits	210,188	176,029
Occupancy and equipment	64,862	59,679
Operating interest	3,646	9,483
Other interest	18,628	20,322
Depreciation and amortization	35,573	34,599
Marketing and advertising	9,186	6,471
Supplies, freight and postage	8,466	6,573
Bad debt	7,993	10,836
Impairment of goodwill	18,000	-
Other	72,221	58,008
	448,763	382,000
Operating loss	(17,397)	(53,019)
Other income:		
Investment income, net	1,084	1,118
Other, net	407	163
	1,491	1,281
Loss before income taxes	(15,906)	(51,738)
Income tax benefit	(6,362)	(20,954)
Net loss	\$(9,544)	\$(30,784)
Basic and diluted net loss per share	\$(0.05)	\$(0.17)
Basic and diluted shares outstanding	181,209	183,859

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

H&R Block Financial Advisors, Inc.

For the three months ended
07/26/2002 07/27/2001 % Change 4/26/2002

Customer trades (000's)	374	389	-3.9%	279
Customer daily average trades	5,940	6,180	-3.9%	5,849
Average commission per trade	\$57.80	\$62.29	-7.2%	\$60.70
Number of active accounts (000's)	731	621	17.8%	701
Average trades per active account per quarter	0.51	0.63	-18.4%	0.40
Average trades per active				

account per year (annualized)	2.05	2.51	-18.4%	1.59
Ending balance of assets under administration (\$ bn's)	\$21.3	\$30.1	-29.2%	\$25.5
Average assets per active account	\$29,116	\$48,498	-40.0%	\$36,672
Ending debit balances (\$ bn's)	\$0.7	\$1.2	-43.5%	\$0.8
Ending credit balances (\$ bn's)	\$0.8	\$0.8	5.1%	\$0.8

Option One Mortgage Corporation

For the three months ended
07/31/2002 07/31/2001 % Change 04/30/2002

Number of loans originated				
Wholesale	20,774	17,999	15.4%	20,693
Retail	4,278	3,695	15.8%	4,022
Total	25,052	21,694	15.5%	24,715
Volume of loans originated (000's)				
Wholesale	\$2,837,060	\$2,120,528	33.8%	\$2,784,076
Retail	536,329	503,418	6.5%	505,154
Total	\$3,373,389	\$2,623,946	28.6%	\$3,289,230
Loan sales	\$3,357,730	\$2,618,446	28.2%	\$3,334,989
Servicing portfolio				
Number of loans serviced (000's)	232.7	180.5	28.9%	209.6
Servicing portfolio (\$ bn's)	\$26.8	\$19.2	39.6%	\$23.8

SOURCE H&R Block Inc.

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